



The Role of Motivation in Performance Management:

The case of performance-related-pay schemes in British local authorities

By

JOHN ISAAC MWITA

A thesis submitted to the Faculty of Commerce and Social Science
of the University of Birmingham for the degree of
DOCTOR OF PHILOSOPHY

International Development Department (IDD)
School of Public Policy
The University of Birmingham
August 2002

UNIVERSITY OF
BIRMINGHAM

University of Birmingham Research Archive

e-theses repository

This unpublished thesis/dissertation is copyright of the author and/or third parties. The intellectual property rights of the author or third parties in respect of this work are as defined by The Copyright Designs and Patents Act 1988 or as modified by any successor legislation.

Any use made of information contained in this thesis/dissertation must be in accordance with that legislation and must be properly acknowledged. Further distribution or reproduction in any format is prohibited without the permission of the copyright holder.

Abstract

The adoption of performance-related pay schemes is part of the wider market-type reforms occurring in public services today. However, this ‘managerial revolution’ has prompted an academic debate for and against these practices. The main questions raised revolve around the novelty, objectivity and compatibility of such practices to which this study responds.

The thesis argues that the value of an incentive scheme policy is a function of the organisational environment, objectivity of performance measurement processes and perceived equity of the installed scheme. The research uses data from in-depth interviews, questionnaires, and desk research based on a case study of performance-related pay schemes in UK local authorities.

The evidence indicates a strong support at policy level for the use of market-type managerial reforms, but less support on the ground for the performance-pay thesis. There are difficulties encountered in the setting, measuring and rewarding qualitative performance of intangible targets such as intellectual capital. The evidence perceives PRP schemes to be vulnerable to failure as they are installed as ‘off-the-shelf’ ‘stand-alone’ rather than organisation specific motivational devices. The study looks at the ‘new’ role of management accounting systems in meeting ‘performance information needs’ of public sector managers as a potential area for further research.

Dedication

This work is dedicated to my Father, the late **Mzee Isaka Matiko Mwita** (who died in the middle of my writing-up stage and without whom I was very reluctant to start my kindergarten school in the first place), to my Family and to The Almighty God the Glory.

Acknowledgements

In assorted ways, a number of people have contributed to making this study achievable. First and foremost, I would like to thank my employer, Mzumbe University, Tanzania (formally The Institute of Development Management (IDM)), for the award of the doctoral scholarship. Secondly, The International Development Department (IDD - formerly the Development Administration Group - DAG) of the School of Public Policy, The University of Birmingham, for granting me the admission into this research based study programme.

I am indebted to my supervisor, Dr. Adrian Campbell, whose advice, support and inspiration throughout this study have been invaluable, and Professor Richard Batley, Simon Delay, and Dr. George Larbi, who, as members of my panel, have provided very me with candid and helpful comments at various stages of the study. I am also grateful to Dr Philip Amis and Steve Rogers. My thanks are also due to Professor Rowan Jones, Professor Kloot of Queensland University, Australia, for reading and making helpful comments on parts of the thesis. I wish to thank all other staff of the IDD, especially, Nick Devas, Ann, and Debra, for their moral support. I wish to thank all my fellow doctoral research students in IDD, who have shared thoughts with me on various issues, particularly Dr. James Buturo, Dr. Pankaja, Dr. Jamil, just to name a few.

Writing this thesis would have been extremely difficult, almost impossible without the cooperation and assistance of officials in various local governments in the United Kingdom with whom interviews and discussions were held. I am indebted to all of them for giving me their time and for facilitating my research. My thanks also go to all friends and colleagues especially Millanzi and Kihombo (doctoral students in UK and the US, respectively) for their support and encouragement.

Parts of the main contribution of this thesis on Performance Management Model were published in *The International Journal of Public Sector Management* Volume 13 Number 1, 2000, pp. 19-37. The helpful comments made by various participants during research students' seminars in IDD are hereby gratefully acknowledged. The comments and help from all the people mentioned above are gratefully acknowledged. It must be emphasised, however, that I bear full responsibility for any weaknesses of this thesis.

Lastly, but by no means the least, I am extremely grateful to my wife Loyce for all her support and to Isaac, Daniel, Queen, Lisa, Linda and Yasinta for their patience and endurance. There have been difficult moments but I hope we can share the fruits of this work together.

TABLE OF CONTENTS

TABLE OF CONTENTS.....	V
LIST OF ILLUSTRATIONS.....	X
LIST OF TABLES.....	XI
LIST OF ABBREVIATIONS/DEFINITIONS.....	XII
 PART I:	 - 1 -
INTRODUCTION	- 1 -
CHAPTER ONE	- 1 -
INTRODUCTION: THE RESEARCH PROBLEM	- 1 -
1.1. <i>The Context of the Research</i>	- 1 -
1.2. <i>Research problem</i>	- 2 -
1.2.1. The debate for and against market-type PM practices	- 2 -
1.2.2. Research problem and the main argument.....	- 5 -
1.2.3. The purpose and focus of the study	- 6 -
1.3. <i>Research issues and objectives of the study</i>	- 7 -
1.3.1. Research issues.....	- 7 -
1.3.2. Research objectives and questions	- 7 -
1.4. <i>The theoretical framework</i>	- 9 -
1.5. <i>Contributions of the study</i>	- 11 -
1.6. <i>Justification and significance of the research</i>	- 13 -
1.7. <i>Methodology</i>	- 16 -
1.8. <i>The Scope of the Study</i>	- 17 -
1.9. <i>Structure of the Thesis</i>	- 18 -
1.10. <i>Conclusion</i>	- 19 -
 PART II	 - 20 -
LITERATURE REVIEW	- 20 -
 CHAPTER TWO	 - 21 -
THEORIES OF HUMAN RESOURCE MANAGEMENT, MOTIVATION AND REWARD SYSTEMS.....	- 21 -
2.0. <i>Introduction</i>	- 21 -
2.1. <i>Theoretical Evolution, Research, and Practice of HRM</i>	- 21 -
2.1.1. Strategic Perspective on Human Resources Management.....	- 24 -
2.1.2. Theoretical Foundations	- 26 -
2.1.3. The concept of strategic approach to HRM	- 26 -
2.1.4. The approaches to Strategic HRM.....	- 27 -
2.1.5. Comparative analysis and Research Gaps	- 30 -
2.2. <i>The Theory of Motivation</i>	- 37 -
2.2.1. Definition of motivation	- 37 -
2.2.2. The Process of Motivation.....	- 38 -
2.2.3. Reinforcement theory and motivation	- 39 -
2.2.4. Intrinsic and extrinsic motivation	- 40 -
2.3. <i>Developments in the theories of motivation</i>	- 40 -
2.3.1. Process (or Cognitive) theory of motivation.....	- 41 -
2.3.2. Motivation - Performance linkage.....	- 48 -
2.4. <i>Compensation and Reward Systems (CRS) management theory</i>	- 49 -
2.4.1. Designing strategy of compensation and reward systems.....	- 51 -
2.4.2. Elements of an employee compensation-reward system	- 52 -
2.4.3. Employees' Compensation-Reward Strategy	- 53 -
2.4.4. Developments in the Reward Systems management scene.....	- 53 -
2.5. <i>Conclusion</i>	- 57 -

CHAPTER THREE	- 59 -
THE THEORY OF HRM AND PERFORMANCE MANAGEMENT.....	- 59 -
3.0. Introduction	- 59 -
3.1. HRM and Performance: a review and research agenda.....	- 59 -
3.1.1. Theory about human resource management.....	- 60 -
3.1.2. Theory about performance	- 64 -
3.1.3. Theory about the link between HRM and performance.....	- 67 -
3.1.4. The empirical evidence about HRM and performance: a conceptual framework.....	- 72 -
3.1.5. The empirical studies of HRM and performance.....	- 75 -
3.1.6. Emerging issues for future research on HRM and performance.....	- 77 -
3.2. Relevance of behavioural theory on managing performance.....	- 79 -
3.2.1. Behavioural modification	- 80 -
3.2.2. The ABC Model of Behaviour Change	- 81 -
3.3. The Conceptual Framework of Performance.....	- 81 -
3.3.1. Definition of performance	- 82 -
3.3.2. Factors affecting performance.....	- 84 -
3.3.3. Dimensions of Performance	- 85 -
3.3.4. Performance measurement in local government.....	- 86 -
3.3.5. Service Quality Management	- 87 -
3.4. Performance management theory	- 88 -
3.4.1. The stages in the PM model System.....	- 92 -
3.4.2. The PM model approach to service delivery	- 93 -
3.5. Implication of the PM model for organisational strategy.....	- 95 -
3.5.1. Linking corporate plans with community needs.....	- 96 -
3.5.2. The PM model and measurement of performance	- 97 -
3.6. Performance Measurement Systems	- 97 -
3.6.1. Performance measurement and reward policy themes.....	- 99 -
3.7. Performance Planning, Measurement and Control Techniques	- 100 -
3.7.1. Budgeting	- 101 -
3.7.2. Economic Value Added (EVA™).....	- 103 -
3.7.3. The balanced scorecard approach (BSA).....	- 106 -
3.7.4. Comparative Analysis of the three techniques.....	- 108 -
3.8. The PM model as a Strategic HRM tool	- 110 -
3.9. Conclusion	- 111 -
 CHAPTER FOUR.....	 - 113 -
EMPIRICAL STUDIES ON PRP INCENTIVE SCHEMES	- 113 -
4.0. Introduction	- 113 -
4.1. The Background of Performance-pay schemes.....	- 113 -
4.1.1. Requirements and assumptions of performance-pay schemes.....	- 114 -
4.1.2. Preconditions for successful introduction of PRP schemes	- 115 -
4.1.3. Relating rewards to organisational performance	- 116 -
4.1.4. The public - private compensation gap.....	- 117 -
4.2. Individual PRP as a motivator.....	- 117 -
4.2.1. Background	- 117 -
4.2.2. Empirical case studies of PRP schemes in the public sector	- 119 -
4.3. Effectiveness of Individual PRP in UK public sector.....	- 125 -
4.3.1. Acceptability of PRP principle	- 126 -
4.3.2. Financing PRP Schemes.....	- 127 -
4.4. Recap of the Research Issues and Questions	- 128 -
4.4.1. Difficulties in cultural change	- 129 -
4.4.2. The issue of capacity to accommodate change	- 130 -
4.4.3. The issue of performance-based reward systems & incentive schemes.....	- 131 -
4.4.4. The issue of performance measurement schemes.....	- 133 -
4.4.5. Issues relating to perceptions of equity of PRP schemes.....	- 134 -
4.5. Conclusion	- 136 -

PART III	- 139 -
RESEARCH DESIGN	- 139 -
CHAPTER FIVE.....	- 140 -
RESEARCH DESIGN	- 140 -
5.0. <i>Introduction</i>	- 140 -
5.1. <i>Hypothesis of the Study</i>	- 140 -
5.1.1. The general hypothesis	- 141 -
5.1.2. The Operational hypothesis	- 141 -
5.2. <i>Approach of the Study</i>	- 142 -
5.2.1. Definition of a Case study	- 142 -
5.2.2. Justification for the Survey within Case Study Approach	- 143 -
5.2.3. Limitations of the Study	- 145 -
5.3. <i>Methodology and sample of the survey</i>	- 146 -
5.3.1. Methodology	- 146 -
5.3.2. Why British local authorities?	- 147 -
5.3.3. Time Frame	- 148 -
5.3.4. The sampling frame.....	- 149 -
5.3.5. The survey sample.....	- 150 -
5.3.6. Response rate.....	- 150 -
5.3.7. Data Collection.....	- 151 -
5.4. <i>Analytical Framework Strategy</i>	- 153 -
5.4.1. The PM model as a tool for research analytical framework	- 153 -
5.4.1. Organisational aims and objectives	- 155 -
5.4.2. Organisational strategic intent and the means to realize them	- 156 -
5.4.3. Organisational effectiveness and efficiency	- 156 -
5.4.4. Question of motivation and incentives	- 157 -
5.4.5. Question of performance information flows.....	- 158 -
5.5. <i>Conclusion</i>	- 159 -
PART IV.....	- 162 -
DATA COLLECTION & ANALYSIS	- 162 -
CHAPTER SIX.....	- 163 -
CASE 1: SURVEY ON CAPACITY ISSUES AND PRP IN BRITISH LAS	- 163 -
6.0. <i>Introduction: Background to pay-reforms</i>	- 163 -
6.1. <i>The emergence of Pay Reforms in UK's public service</i>	- 165 -
6.2. <i>Capacity to implement managerial changes</i>	- 167 -
6.3. <i>The Issue of Strategic Approach</i>	- 168 -
6.3.1. The existence and origin of mission statement	- 168 -
6.3.2. Articulation of all about change	- 171 -
6.3.3. Corporate objectives and strategic plans linkage.....	- 173 -
6.4. <i>Scale and Scope of PMS and PRP Schemes</i>	- 175 -
6.4.1. Existence of the Schemes	- 175 -
6.4.2. Coverage of the PRP Schemes	- 180 -
6.5. <i>Consultations for Setting Performance Targets</i>	- 182 -
6.6. <i>Role of Management Accounting Information System</i>	- 184 -
6.7. <i>Significance of Quantitative and Qualitative data</i>	- 187 -
6.8. <i>Discussion of key survey findings</i>	- 188 -
6.8.1. Rewarding Performance: A new managerial culture?	- 188 -
6.8.2. Corporate Objectives	- 190 -
6.8.3. Dissemination of information	- 191 -
6.8.4. Existence of PMS and PRP Schemes	- 191 -
6.9.5. Coverage of PRP schemes.....	- 192 -
6.9.6. Target-setting and performance evaluation	- 193 -
6.9.7. Significance of quantitative, qualitative data & management accounting systems.....	- 194 -
6.10. <i>Conclusion</i>	- 196 -

CHAPTER SEVEN	- 198 -
CASE 2: SURVEY ON PERFORMANCE MEASUREMENT & PRP IN BRITISH LOCAL GOVERNMENT	- 198 -
7.0. Introduction	- 198 -
7.1. Performance Measures in British Local authorities	- 199 -
7.1.1. The scope of performance measures in local government	- 200 -
7.1.2. Factors affecting the use of performance measures in LGs	- 200 -
7.1.3. Performance contracting and measurement	- 202 -
7.1.4. Rewards and sanctions in performance measurement	- 205 -
7.2. Performance Indicators: The balanced scorecard approach	- 207 -
7.2.1. Financial Indicators	- 208 -
7.2.2. Non-financial indicators	- 208 -
7.2.3. Customer focus indicators	- 208 -
7.2.4. Innovation and learning indicators	- 210 -
7.3. Measuring Performance & Giving Feedback	- 212 -
7.4. Discussion about performance measurement in BLGs	- 216 -
7.4.1. Practical implication of measuring performance	- 217 -
7.4.2. Performance assessment and allocation of pay awards	- 217 -
7.4.3. Factors attributable to increased used of performance measures	- 218 -
7.4.4. The balanced approach to measuring performance	- 218 -
7.5. Conclusion	- 225 -
CHAPTER EIGHT	- 228 -
CASE 3: SURVEY ON EQUITY PERCEPTIONS ABOUT PERFORMANCE-PAY REWARD SYSTEMS	- 228 -
8.0. Introduction	- 228 -
8.1. The acceptability of performance-pay linkage principle	- 229 -
8.2. Pay as a Motivator and its effect on performance	- 232 -
8.3. Objectives of PRP	- 235 -
8.4. Success of the Scheme	- 240 -
8.5. Effect of PRP on Performance	- 243 -
8.6. Drawbacks with the Scheme	- 245 -
8.7. Short-term Objectives, Targets and Feedback	- 249 -
8.8. Performance and Reward Links	- 252 -
8.9. Effects of PRP on Team-spirit	- 254 -
8.10. Joint Consultation in goal-setting process	- 256 -
8.11. Improvement in Performance	- 258 -
8.12. Attitude and Discontent Survey	- 263 -
8.13. Key findings: Stakeholders' perceptions on PRP schemes	- 266 -
8.14. Conclusion	- 269 -
CHAPTER NINE	- 270 -
CASE 4: THE CASE STUDY OF PRP SCHEMES IN BRITISH LOCAL AUTHORITIES	- 270 -
9.0. Introduction	- 270 -
9.1. The overall context of PRP schemes in PSOs	- 271 -
9.2. Analysis of Interviews and discussions: The Practice of PRP	- 274 -
9.2.1. Individual and organizational performance	- 276 -
9.2.2. PRP and fairness	- 291 -
9.2.3. Financial and performance management	- 301 -
9.3. Quality issues: the British local government experience	- 304 -
9.3.1. Service quality in local government	- 305 -
9.3.2. Developing a framework for managing service quality	- 306 -
9.4. Research implications for performance management	- 308 -
9.4.1. Measuring Performance and Collaboration	- 308 -
9.4.2. The balanced approach to strategic Performance Management	- 309 -
9.4.3. Corporate culture implications for PM	- 311 -
9.4.4. Performance measurement implication for PM	- 312 -
9.4.5. Increased demand for accountability to community	- 312 -
9.4.6. Perceived pay-to-performance relationship	- 312 -
9.4.7. Motivation of public sector managers	- 314 -
9.5. Conclusion	- 315 -

PART V	- 319 -
CONCLUSIONS, RESEARCH IMPLICATIONS,.....	- 319 -
AND AREAS FOR FURTHER RESEARCH.....	- 319 -
 CHAPTER TEN.....	 - 320 -
CONCLUSIONS: A VIGILANT APPROACH FOR DEVELOPING ECONOMIES.....	- 320 -
10.0. <i>Introduction</i>	- 320 -
10.1. <i>Summary of key research findings and conclusions</i>	- 321 -
10.1.1. Capacity of PSOs to accommodate imported changes.....	- 321 -
10.1.2. Attributes of a successful PRP scheme.....	- 322 -
10.1.3. Motivation of public sector managers	- 323 -
10.1.4. Linking pay to performance: principle versus process	- 324 -
10.1.5. The balanced approach to performance measurement	- 324 -
10.1.6. Equity perceptions of PRP schemes	- 325 -
10.2. <i>Implications of the study: The theoretical contribution</i>	- 327 -
10.2.1. The environmental contingency motivational approach.....	- 328 -
10.2.2. Lessons	- 329 -
10.2.3. The Main Contribution: Contractualism: an organisational change implementation model	- 334 -
10.3. <i>Direction for further research</i>	- 335 -
 APPENDICES	 - 337 -
Appendix A: <i>Topic Guide</i>	- 337 -
Appendix B: <i>Questionnaire Series 1 [sample]</i>	- 338 -
Appendix C: <i>Questionnaire Series 2</i>	- 340 -
Appendix D: <i>List of Respondents and Interviewees</i>	- 345 -
Appendix E: <i>List of Skills and Attributes</i>	- 349 -
Appendix F: <i>Skills and Attributes Mark Sheet</i>	- 350 -
Appendix G: <i>A checklist for evaluating and revising incentive pay systems</i>	- 351 -
Appendix H: <i>The Analytical Framework</i>	- 352 -
Appendix I: <i>Introduction Letter to Chief Executives</i>	- 353 -
 BIBLIOGRAPHY	 - 354 -

List of Illustrations

Figure 2.1: The Process of Motivation	Page 22
Figure 2.2: Performance, Pay and Motivation Model	Page 32
Figure 2.3: The Reward System Model	Page 34
Figure 3.1: Linking HRM practices and HRM outcomes	Page 80
Figure 3.2: The 5-Dimensional PM model	Page 102
Figure 3.3: The Balanced Scorecard:.....	Page 118

List of Tables

Table 2.1: Strategic issues in the design of compensation-reward systems	Page 35
Table 3.1: Linking HRM and performance	page 82
Table 3.2: Forms of HRM fit	page 83
Table 3.3 Ghobadian and Ashworth: Performance measurement systems.....	page 108
Table 3.4: Comparison of three planning and control techniques analysed using the PM model framework....page 120
Table 5.1: Research issues in a 5-DPM model analytical framework118
Table 10.1: Strategic Choices in Local Government PM model278

List of Abbreviations/Definitions

5-DPM model:	- Five dimensional performance management model
ABC Model:	- A behavioural change model composed of three elements - Antecedents, Behaviour, and Consequences
AGREE:	- Motivation theorems of achievement, goal-setting, reactance, expectancy, and equity
BLGs:	- British local governments
BSA:	- Balanced Scorecard Approach
CCT:	- Compulsory Competitive Tendering
CRS:	- Compensation and Reward Systems
DTEs:	- Developing and transitional economies
EVA:	- Economic Value Added
FMI:	- Financial Management Initiatives
HRM:	- Human Resources Management
SHRM:	- Strategic Human Resource Management
IT:	- Information Technology
MAS:	- Management accounting system
MBO:	- Management-by-Objectives
MIS:	- Management Information System
MV:	- Motivational value
NHS:	- National Health Services
NPM:	- New Public Management
NPRP:	- New Public Reform Programme
NPV:	- Net present value
OC:	- Organisational capacity
OD:	- Organisational Development
OECD:	- Organisation for Economic Cooperation and Development
PBIs:	- Performance-based incentive scheme
PE:	- Perceived equity
PM:	- Performance Management
PMA:	- Performance measurement and accountability
PRP:	- Performance-Related Pay
PSOs:	- Public Service Organisations
SMART:	- Stretching and Specific, Measurable, Agreed and Achievable, Realistic and Relevant, and Time related/limited.
SPSS:	- Statistical Package for Social Science
TQM:	- Total Quality Management(
VIE:	- Valency-instrumentality-expectancy

Part I:

Introduction

Chapter One

INTRODUCTION: THE RESEARCH PROBLEM

1.1. The Context of the Research

The past two decades have seen a process of almost continuous reform in managing public services through importation of market-type managerial practices into the public sector. The reforms have all aimed at improving the quality of performance in public services, creating new forms of relationship between public and private sector organizations, and new types of regulation and accountability. Conversely, these public management reforms have, in a variety of ways, been transferred to the state systems of developing and transitional economies (DTEs) (McCourt and Minogue, 2001). This managerial 'revolution' has therefore necessitated a need for DTEs to learn from the experience of developed countries.

The literature on public management reforms indicates that the changes have been driven by a combination of factors including: the assault on the traditional assumptions of public sector generally; responses to changes in economic theory; the impact of changes in the private sector, particularly globalisation as an economic force; and changes in technology (Hughes 1999; Farnham and Horton, 1998). This change in economic thinking has profoundly affected the public bureaucracy regime. It has now gradually *reformed* activists and believers in the classical 'Weberian' public administration theory at the higher levels of the bureaucracy while economic theories spread through the new public management (NPM), in form of public choice theory, agency theory and transaction cost theory (Williamson, 1986; Walsh, 1995; Boston *et*

al., 1996).

The philosophy of NPM is to instil market-type discipline and a culture of performance orientation within public sector organisations (PSOs) with a view to minimising the cost of service quality and augment the degree of accountability through motivational strategies. Dixon *et al* (1998) describe NPM or managerialism as a '*private sector prescription for public sector problems.*' They argue that, using 'results-oriented' market-type managerial approach is a universal therapy for the public sector's 'self-evident' inadequate performance (*ibid.*). It is within this spirit that performance management (PM) theory has become one of the central pillars of NPM today.

However, although the reality is somewhat different, the impression has been created that NPM practices are an integral part of globalisation and have been implemented '*wholesale*' in all OECD member countries. Despite issues of compatibility being paramount, the current research activity in this subject has paid less attention to the 'new' role of motivation theory and its applicability in public service institutions during this NPM era. Therefore, the main focus of this research is to examine the applicability of motivation theory in this 'new' form of performance management environment using the case of performance-related incentive schemes in the British local authorities (BLAs).

1.2. Research problem

1.2.1. The debate for and against market-type PM practices

The research problem is derived from the debate for and against the application of market-type motivational devices as a package of managerial reform practices generally, and PM techniques in particular. Farnham and Horton (1996) argue that PM has become an important feature of public services in Britain since the introduction of managerial reforms in the country. PM aims

at improving the quality of public service delivery by focusing on the achievement of end-user needs (Otley, 1999). Similarly, the PM framework is argued to use systems which help PSOs to plan, delegate, assess and reward the operation of their activities and services (ibid.). However, as Mwita (2000) argues, the effectiveness of this process depends on the timeliness and reliability of performance information flows from and to the management accounting system (MAS). Being an important framework for managing incentives and reward systems, the PM model aims at achieving high standards of work, quality output and satisfying customer needs (Beaumont, 1993).

In contrast, however, the rival literature argue that radical managerial changes in PSOs have been imposed by the central government '*off-the-shelf*' from the private sector to complicate and frustrate management in PSOs (Isaac-Henry, 1998; Kloot, 1998). The changes are in terms of the scope, functions, structures, the ways in which they are financed, how they are managed and who manages them. Generally, although motivational devices such as performance-related pay schemes (PRPs) have been introduced, this 'quiet managerial revolution' has created tensions between those who manage them – and are increasingly highly paid – and those who are managed within them, especially professional groups such as doctors, nurses and teachers, who are paid less (Horton and Farnham, 1999).

In particular with respect to PRPs, several scholars and practitioners have noted that there is a growing tension within human resources management (HRM) literature about the schemes and the processes currently used to reward individuals (Smith, 1992; Legge, 1995; Kessler and Purcell, 1992). However, it appears that many of the motivational initiatives pursued represent no more than a 'shuffling of the pack' (Kessler and Purcell, *ibid*: 274), rather than any innovative, integrated strategy (Storey, 1992: 27), which could be considered as part of a distinctive strategic PM approach.

Empirical studies are questioning whether extrinsic performance-based incentives and reward systems such as PRP schemes have had any impact at all on the individuals' contribution to the organisation as a whole (Heery, 1998; Wright, 1995). Recent studies of some PSOs in UK have concluded that PRP in particular has had no impact on organisational or individual performance (Edis, 1995; Kelly and Monks, 1996; and Armstrong, 1998). Further more, empirical studies show that in practice, much of the dissatisfaction with performance appraisal comes from the ineffectiveness of the system in achieving some of the purposes for which the schemes are established (Campbell, 1996; Bititci *et al* 1997). An interesting issue which arises here and remains unattended is, "does the achievement of the purpose of an incentive scheme or reward system constitute a prime source of motivation in a public sector environment?"

Studies also indicate that some of the problems with performance-based incentive schemes (PBIs) are attributable to the flaws in the design and implementation of the performance appraisal schemes in organisations (Campbell, 1990; Rogers, 1990; Armstrong, and Murlis, 1991). In 1997, the OECD launched a survey to evaluate the impact of performance pay schemes for public sector managers in five OECD countries (Australia, Denmark, Ireland, the United Kingdom and the United States). The managers' verdict in this survey was that the processes used to measure performance are critical to the success of PBIs.

Evidences from other surveys consistently show that managers spend little time on the measurement process of individual performance (Palmer, 1993; Ghobadian and Ashworth, 1994). This issue of objective performance measurement and accountability (PMA) is fundamental to the generalisations of motivation theory in a PM framework. Besides McClelland's (1961, 1975) achievement theory, the study applies the theorems of goal-setting, expectancy, reactance and equity theories of motivation (Vroom, 1964.; Locke, 1968; Adams, 1965) to examine the research problem stated in s.1.2.2 below.

1.2.2. Research problem and the main argument

Generally, the thesis examines the role of motivation theory in a public sector environment following this wholesale adoption of market-type principles in managing performance. The thesis adopts a balanced and inclusive approach that performance is achieved if it is defined as embracing three interrelated variables: behaviours (processes), outputs, and outcomes (value added or impact). The main assumption of the thesis is that for a standard PM model to be effective it must comprise, among other dimensions, a performance-related incentive and reward policy.

In particular, the problem addressed in this research is ***“How appropriate are market-type motivational strategies in managing performance in political institutions such as local authorities?”*** In other words, the study examines the ‘goodness of fit’ of performance-pay reward systems and the attributes of a compatible performance-based motivational strategy in a public sector environment. Essentially, the study acknowledges that motivation theory has a vital role to play in managing performance, but it argues that the satisfactoriness of such a strategy is a heterogeneous phenomenon. Furthermore, the thesis argues that by and large, the compatibility of such a policy is a relational construct, which requires a conducive background-operating environment to prevail. Specifically, the hypothesis of this study is to attest the claims and generalisations made in the literature about the effect of motivation theories on performance at workplaces.

The main proposition of the study is that the motivational value (MV) of an incentive and reward system policy is a function of three variables:

- Firstly, the operating environment in terms of the overall organisational culture, values and the capacity (OC) to change;

- Secondly, the objectivity and ‘goodness of fit’ of the performance measurement and accountability processes (PMA); and
- Thirdly, the stakeholders’ perceived equity (PE) of the installed performance-related incentive scheme and reward system.

The evidences gathered from this research has consistently indicated that PBIs generally, are organisation specific rather than ‘off-the-shelf’ ‘stand-alone’ motivational devices. Consequently the study argues that although the PM model principles are applied, in the case of PRP schemes in the British local authorities, adequate capacity to implement them is lacking. Secondly, there is strong evidence to suggest that given the qualitative nature of performance in public sector, it is difficult to operate performance measurement and accountability schemes objectively. Thirdly, reward systems that attempt to link performance to pay are not perceived to be equitable amongst stakeholders because they contradict with conventional values in public sector environment - in general they are described to be divisive, discriminative and eccentric.

1.2.3. The purpose and focus of the study

The purpose of this study is two-fold. First, is to understand underlying tensions in compensation and reward systems management within PM framework in PSOs. Secondly, to draw lessons relevant for developing countries from the experience of British local authorities in the formulation and implementation of PM model insofar as incentives and reward systems (IRS) are concerned.

Empirical studies on PM practices suggest that the current debate on reward systems management has prompted numerous academic enquiries about this subject mainly in the central government (OECD, 1998; Kelly and Monks, 1996) and proportionately less in the context of local government system (LGMB, 1996). As a contribution to knowledge this study

has focused on the local government system.

In particular, the study focuses on the following issues: (1) the capacity of local authorities to manage organisational change; (2) the objectivity of processes of performance measurement, accountability and reward issues within the performance management framework in the British local authorities; and (3) the perception of local government managers about the equity attributes of a successful PBI scheme in a public sector environment.

1.3. Research issues and objectives of the study

1.3.1. Research issues

The three issues which are addressed in this research are briefly outlined below:

- 1. The first concern is about the **capacity** of public sector organisations to manage market oriented reward systems and incentive schemes within the framework of PM model;*
- 2. Second is about the ability of public sector organisations to measure managerial performance **objectively**, and enhance managerial accountability using PBI schemes to act as a motivator;*
- 3. The third is about the stakeholders' **perception of equity** of PBI schemes;*

The first issue prompts an examination of the capacity of organisations in terms of the existence of a conducive environment for effective management of market-type performance-based reward systems and incentive schemes. The second and third issues are mainly focussing on the characteristics of a successful PBI scheme. These issues and specific questions are listed in 1.3.2 below, in s.4.9 of Chapter Four and in the PM model analytical framework in s.5.4 of Chapter Five in this thesis.

1.3.2. Research objectives and questions

The study has two main objectives. These objectives along with their respective topic guide questions are as follows:

- (1) To understand capacity issues and objectivity of the processes of measuring

qualitative performance for the purpose of motivation in a local government environment; the guiding research questions were:

- (i) *What organisational capacity do local authorities need to undertake strategic direction in bringing about in-house organisational cultural change commensurate with market-based managerial techniques?*
- (ii) *Is 'culture' or 'tradition' an obstacle to use performance-related-pay schemes?*
- (iii) *What conditions are in place in the British local government system to sustain the effective implementation of private sector-based employee incentive and reward structures such as PRP given the qualitative nature of performance in the sector?*
- (iv) *What approaches do British local authorities use to measure performance of such a qualitative nature for motivational purposes?*

(2) To survey the perception of equity of performance-based incentive schemes from the viewpoint of British local government senior managers; the guiding research questions were:

- (i) *What characteristics constitute a successful performance-pay incentive scheme for public sector managers in local authorities?*
- (ii) *Does individual performance related pay motivate people?*
- (iii) *Why does individual performance related pay not work effectively in the UK public sector?*

These are broad questions designed for guidance only. The specific operational questions are listed in Appendices A and B at the end of this thesis.

In the first objective, the thesis seeks to examine the organisational capacities necessary for implementing market-type performance-based pay schemes as one of the dimensions of performance management system. The study assesses the techniques used in operating performance measurement and accountability schemes designed within the PM model framework in the British local authorities. For the purpose of this study, capacity refers to the organisational structures, conditions in terms of the PM framework and processes put in place in the local government system to allow the successful and smooth implementation of performance-based employee rewards and incentive structures.

The second objective is to survey the perception of public sector managers in the British local government system about the equity attributes of successful PBIs. In this context several aspects of such schemes are examined including the following issues: (a) acceptability of the performance-pay linkage; (b) the ability of pay to act as a motivator for managerial performance; (c) the rationale for introducing a PBI scheme in a public sector environment; and (d) drawbacks with PBI schemes. Others include: (e) objectivity of measuring managerial performance; (f) feedback systems; (g) appeals systems; (h) joint consultations; and (i) organisational culture. The responses to these issues has not only indicated the degree of institutional acceptance of the PBI schemes, but has also signified the capacity of PSOs to adapt to market-type managerial reform practices.

1.4. The theoretical framework

The previous sections have presented the research problem, a brief summary of research issues and objectives of the study. This section presents the major *bodies of theory* that characterise this research problem and constitute the theoretical framework of the study as covered in detail in Part II of this thesis. The main theories are related to motivation, PM and performance-related incentive schemes and reward systems management.

The process of motivation as conceptualised in Chapter Two is broadly based on a number of major bodies of motivation theory, which attempt to provide in-depth explanations of what it is all about. Some of them, like the crude ‘instrumentality’ theory (Taylor, 1911) which was the first to be developed, have largely been discredited, at least in psychological circles, although they still underpin the beliefs of some managers about motivation and reward systems.

The second is the *needs or content theory* - as developed by Maslow (1954), Alderfer (1972) and McClelland (1975). The third classification is the *process or cognitive theory* - which is

concerned with the psychological processes or forces which influence motivation as affected by people's perceptions of their working environment and the ways in which they interpret and understand it. This category is very relevant for this study as it embraces the by-product theories of *expectancy*, *goal-setting*, *achievement*, *reactance* and *equity* (AGREE). The fourth category comprises the Herzberg's (1957) - two factor (motivation-hygiene) theory; *behavioural theory* (Skinner, 1974); and *social-learning theory* - as developed by Bandura (1977).

Besides these major bodies of the theory of motivation, other subsidiary theories relevant to this study are performance management (chapter three) and PRP incentives and reward systems management (Chapter Four). It is essential that these other theories be reviewed in order to facilitate the whetting of the research issues about which data has been collected. The bottom line is that both the parent and subsidiary bodies of theories reviewed are fundamentally instrumental in the achievement of the main objective of the study, i.e. to test the generalisations of motivation theory and examine the compatibility of performance-based incentive schemes and reward systems in a public sector environment.

Review of the literature narrows down to a kind of balanced approach to designing and implementing motivation policies. Firstly, individuals must learn the program of their organization's culture if they are to make the system work. Secondly, organisations must survey a catalogue of intrinsic and extrinsic motivation tendencies of their employees if they are to improve the quality of their delivery through performance-based incentive policies.

Thirdly, PM is one dimension of the current reforms in public sector management. PM is seen in a broader perspective as encompassing both the development of performance information and how it is used by management for decision-making and by external parties for accountability purposes. Finally, it is important to integrate PBIs within the whole PM

framework rather than being treated as ‘off-the-shelf,’ ‘stand-alone’ incentive packages and reward systems.

Although this tendency prompts a number of empirical studies addressing issues surrounding public sector reforms within the NPM paradigm, generally little focus has been made to examine the issue of compatibility of market-type managerial approaches in PSOs. In particular, fairly less attention has been so far paid to examine the role of motivation in managing performance in this era of NPM in a local government environment. This study therefore is an attempt to bridge this research gap and encourage further academic enquiries around this contemporary phenomenon of rewarding public performance using market-type schemes.

In summing up, the literature has indicated that employee motivation is an invaluable dimension of performance management. The literature reviewed in Chapters 2, 3, and 4 demonstrates that variants of motivation theories, PM techniques and PBIs must be integrated to bring about the achievement culture within public services. To this end, process motivation theories of AGREE have an important role to play in the whole practice of designing PBIs and managing performance in organisations.

1.5. Contributions of the study

Essentially, the study is intended to be a theoretical contribution to the partial but growing body of knowledge about the role of motivation theory in managing performance in a public sector environment – especially the adoption of performance-based incentive schemes (PBIs) in public services. By and large the contribution of this study to knowledge may be viewed in three perspectives:

- the use of PM model as a research tool;

- the testing of generalisability of motivation theorems of AGREE in a public sector environment through which we have one proposition regarding the significance of ‘*environmental contingency*’ motivational approach to managing performance in PSOs,
- lessons from the experience of UK local authorities in the implementation of performance-pay schemes as a motivational device, and

(a) PM model as a research tool

Through out this study it has been demonstrated that the PM model is an invaluable strategic management solution which can integrate organisational and individual objectives in a balanced way. However, PM model framework can be used as research tool for the purpose of eliciting and analysing data from the field as presented in Table 5.1 in chapter five.

(b) Testing motivation theorems

As a second theoretical contribution, this study seeks to test the validity and applicability of five generalisations of motivation theories of AGREE (as highlighted in s.1.4 above) in a public sector perspective. The goal-setting theory predicts that there is a reciprocal utility between motivation enhancement and attainment of legitimate performance targets given job-holders’ commitment, agreement, and participation in the setting of SMART objectives. The theory also predicts potential operational problems and loss of focus when multiplicities of goals are pursued (McClelland, 1975). Expectancy theory predicts that employee motivation is enhanced if performance (not effort) is adequately rewarded (Vroom, 1964). Achievement theory (McClelland, 1975) asserts that the success of the manager is a function of the need for achievement. Therefore, effectiveness of a manager, innovative ideas and passionate to achieve targets are all the main features of the achievement theorem. Reactance theory of motivation (Brehm, 1966) assumes that given that,

‘a person has a set of free behaviours, he (she) will experience reactance whenever any of these behaviours is eliminated or threatened with elimination, and when a free behaviour of an individual is eliminated (or threatened) his desire for that behaviour or

for the object of it will increase.'

Finally, the equity theory (Adams,1964) advocates that a performance-pay incentive scheme should not only reward all performers fairly, but also must be seen to operate equitably.

(c) Extractable lessons for developing economies

Generally, the lessons may be classified into five main categories as follows: (i) attributes of a successful PBI scheme; (ii) community involvement in decision-making processes; (iii) lessons about the PM model approach to improving public service quality; and (iv) lessons about performance measurement. All these lessons are elaborated in ss.10.2.3 of Chapter Ten in the thesis.

1.6. Justification and significance of the research

According to the Transparent International (TI) Annual Report 2001, three billion people live in cities today, accounting for almost every second person on earth. Urbanisation particularly in developing world, is growing at a rapid pace, making urban systems of governance, performance management and service provision increasingly important for the well being of a large segment of the world's population. Engagement with the private sector is one of the cornerstones of public sector reform initiatives undertaken with a view to addressing issues related the achievement culture in the provision of quality goods and services.

The initiative to bring about the achievement culture within public services has to be aligned with appropriate managerial approaches that appreciate the contemporary role of motivation in improving the quality of performance. Besides, the general review of the theories of motivation in Chapter Two and that of performance management in Chapter Three has led to the conclusion that there is a legitimate and authentic link between systematic management of incentive schemes and reward systems on one hand and for public sector managers to improve

the quality of public service delivery on the other.

This link signifies the central role that process motivation theories of AGREE have to play in bringing about the ‘achievement culture’ within public services. It means that research activities leading to the understanding of the role of motivation in the public sector and lessons drawn from such studies are significantly relevant for developing economies now rather than later. Empirical studies addressing the role of motivation in managing organisational performance in general have rarely gone beyond the private sector.

Therefore, this thesis is a further extension of current studies examining the scope of PM and practice of PRP schemes in a public sector environment. The study also helps to stimulate a debate that motivation theory has a ‘*revised*’ role to play in managing performance following recent public sector reform processes which have incorporated many market-type managerial practices from the private sector. Most importantly, the study helps to pinpoint the extent to which performance information is now becoming an invaluable input in the decision-making processes even in politically flavoured institutions such as local authorities.

By and large, the essence of this study is based on two main strands: first, the growing interest in applying market-type rewards and incentive schemes in the public sector; secondly, the overwhelming debate about the appropriateness of these ‘off-the-shelf’ market-type motivational policies in public services.

There is a two-fold reason why this subject is significantly worthwhile now. First, the PRP schemes have not been in practice long time enough for previous studies to trace their compatibility and carry out an impact assessment. Secondly, factors such as the qualitative nature of public performance, local government culture and attitudes, adequacy of performance measurement skills, and management information systems are potentially a threat to the

effectiveness of the PRP scheme in a public sector setting.

DTEs are overwhelmingly urged by the international community and the market alike to reform the way public services are managed in their respective economies. In response to this, most of these countries are now adopting various NPM practices all of which being transposed from the private sector. PM is one of these practices. In Tanzania for example, the New Public Reform Programme (NPRP) has been designed to bring about changes in every aspect of how business is carried out by all public services.

Among other things the NPRP is designed to launch a strategic process for transforming the role, capacity and performance of public service on a sustainable basis. The activities of this process fall under five components: (i) restructuring the public service; (ii) performance improvement; (iii) pay reform; (iv) records and information systems; (v) capacity building; and (vi) communication, education, and programme monitoring¹.

With respect to performance improvement strategy, the NPRP has emphasised the installation of PM system throughout the public service in order to ensure that all public service organisations provide the highest quality services and that results-oriented management practices are applied. With respect to pay reform, the NPRP stipulates that pay structures will be streamlined and rationalised through results-oriented job evaluations and every hardworking employee will be rewarded accordingly.

Within this context, the government seeks also to transfer the roles, mandates and responsibilities, as well as the resources for delivery of basic social services such as primary

¹ Rugumyamheto, J. (2000), Paper presented at the inaugural ceremony of the Launch of Public Service Reform Programme by the Permanent Secretary, President's Office, Civil Service Department on 20/6/2000, Sheraton Hotel, Dar es Salaam, Tanzania

education, primary health care, agricultural extension services, district and rural roads, to the LGs and community based organisations².

Unfortunately, these reform initiatives are launched in a very weak private sector and very corrupt public sector environment. The realisation of all these goals will be far reaching unless developing countries learn from the experience of other developed economies on how to manage market-type managerial reforms. However, because the contexts are different, an emerging question is that of transferability.

The final justification and significance of this study is based on the novelty of the application of PM model as a research tool (Kloot & Martin, 1998) to address the five key questions relating to NPM as mentioned above and elaborated in s.5.4 in this thesis.

1.7. Methodology

A field or survey within case study methodology was used as this study is seen to be exploratory research of a contemporary phenomenon. Field studies and interviews during case studies provide richer data than can be gained from survey research, and can explore causal effects more closely (Yin, 1994). The completed transcripts were analysed using the Statistical Package for Social Science (SPSS) version 10.0 computer programme to determine recurring themes. Quotes gathered from the interviewees during case studies have been used to give meaning to the results and are presented in Chapters Six, Seven, Eight and Nine.

The research was conducted using a combination of qualitative and quantitative data collection methods. A pilot study was launched in March 1999 and was based on two councils – Birmingham and Solihull. The main study was undertaken using the survey within case study

² Speech by the President of the United Republic of Tanzania, H.E. Benjamin Mkapa, on the official launch of the new phase of the Public Sector Reform Programme, 20/6/2000, Sheraton Hotel Dar es Salaam, Tanzania.

approach. Both questionnaire and interview techniques were used to examine the key research issues cited in paragraph 1.3 above.

The study mostly interviewed senior managers in the British local government authorities (see Appendix D). The objective was to gain a senior managerial perspective on the application of market-type performance management systems, performance measurement processes and equity perceptions of performance-pay schemes in a local government context. The interviews used open-ended topic guide questions to elicit as much information as possible, and were taped (with permission) and transcribed for later analysis. Two different sets of survey questionnaires were sent out to 420 local authorities using electronic mail (e-mail) facility for cost effectiveness. In total 122 of these questionnaires were returned – a response rate of about 29.0 per cent. The breakdown of this number of respondents is summarised in Appendix D of this thesis.

1.8. The Scope of the Study

According to OECD, (1998) and Heery, (1998), there has been very little evaluation of whether improvements due to adoption of market-oriented practices in the public sector have actually occurred or not and whether benefits justify costs. Due to the scope of the study, this thesis has not been able to assess whether the schemes are meeting their stated objectives or in other words, the study does not evaluate the impact of the PRP schemes. The objective of this study is not to evaluate the effectiveness of NPM practices in the public sector. However, the study intends to provide a comprehensive overview of the role of motivation theory in PM as one of the crucial dimensions of NPM regime as a whole. For reasons of manageability, the study concentrates on the implementation of one of the several NPM practices in the British local government system. Although an attempt is made to cover all of the relevant issues, variations in the data available for analysis have meant that some topics could only be examined

and discussed in a relatively trivial way.

1.9. Structure of the Thesis

Apart from this introductory **Part I**, the rest of the thesis is organised into four main parts. **PART II** is the literature review and consists of four chapters: **Chapter Two** reviews the conceptual framework of motivation and employee compensation and reward systems. **Chapter Three** discusses the theory of performance management as an overview framework within which performance-based rewards systems and incentive schemes (PBRIs) are introduced. **Chapter Four** reviews world-wide empirical studies about PBIs across public sector organisations with a view to understanding what is known so far about the subject matter of the study. Most importantly, chapter four draws upon fundamental issues that underlie the research problem towards which this study seeks to contribute.

PART III consisting of Chapter Five is about research methods and analytical framework. **Part IV** comprises four chapters and is concerned with data collection and analysis. **Chapter Six** examines capacity issues of British local authorities to implement PBIs as transposed from the private sector and reviews the evidence supporting the use of performance management and PRP. **Chapter Seven** presents the finding about performance measurement and accountability practices in relation to PBIs decisions across British local authorities. **Chapter Eight** examines the question of the perception of stakeholders about the equity of PBIs in the local government environment. **Chapter Nine** deals with case study interviews, summaries and analyses of the evidence gathered to attest the hypothesis of the study. Finally, **Part V** contains only **Chapter Ten** which summarises key conclusions, contributions and potential areas for further research.

1.10. Conclusion

Various initiatives are undertaken by governments the world over to motivate their employees in order to improve the quality of public services. To achieve this mission, public sector managers are encouraged to adopt market-type techniques in managing performance. This quest for quality public services has brought into the limelight the need for thorough research on the 'revised' role of motivation theory in managing performance – hence this study. It is argued that the importation of market-type managerial practices in PSOs have raised a number of debatable research issues. The debate revolves around compatibility issues of market-type motivational schemes and the role of motivation theory in managing public services.

This study seeks to contribute towards this debate in three ways. Firstly, by using the PM model as a research tool; secondly, by testing the motivation theorems of AGREE, and thirdly, by extracting lessons relevant for local authorities in developing countries from the UK model. This chapter has introduced the research problem, research issues and hypotheses and has laid the foundations for the thesis. Then, the research has been justified, the underlying theories and methodology briefly described. Finally, the chapter has outlined both the scope of the study and the structure of the thesis. On these foundations, the thesis can proceed with a detailed description of the research.

Part II

Literature Review

Chapter Two

THEORIES OF HUMAN RESOURCE MANAGEMENT, MOTIVATION AND REWARD SYSTEMS

2.0. Introduction

Chapter one was concerned with the context of the study which argues that organisations are nowadays concerned with what should be done to achieve sustained high levels of performance through motivated people. This means giving close attention to how individuals can best be motivated through such means as incentives, rewards, leadership and, most importantly, the work they do and the organisation context within which they carry out that work. The aim, of course, is to develop effective PM frameworks, to redress the role of motivation processes and a work environment, which will help to ensure that individuals deliver results in accordance with the expectations of their clients.

This chapter presents a broad review of three key theories of human resource management (HRM), motivation and reward systems management. The chapter begins with a snapshot of the evolution of theory, research, and practice of HRM – including strategic HRM. Then it narrows down to the theory of motivation as a dimension of strategic HRM and reviews the various developments in the theories of motivation. The chapter concludes with looking at the literature on compensation and reward systems management.

2.1. Theoretical Evolution, Research, and Practice of HRM

The Human Resource Management (HRM) function, once responsible for record-keeping and maintenance, has evolved into a strategic partner, sharing comparable boardroom status with disciplines such as accounting, marketing, and finance (Dulebohn, Ferris, & Stodd, 1995). Despite the fact that alternative perspectives regarding the limited contribution of HRM

have been suggested (Stewart, 1996a, 1996b), a positive relationship between the development of HRM as a strategic ally and company performance has been shown (Huselid, 1995; Huselid, Jackson, & Schuler, 1997; Plevel, Lane, Schuler, & Nellis, 1995; Schuler & Jackson, 1987). In line with practice has been HRM research that has grown from its largely theoretical origins to view organizational activities from an interdisciplinary perspective (Jennings, 1994; Wright & McMahan, 1992), concerned with a progression toward methodological and theoretical development (Ferris & Judge, 1991). Significant reviews of the literature chronicle both the development of the HRM function, as well as the evolution of research designed to explain this phenomenon (Fisher, 1989; Jackson & Schuler, 1995; Mahoney & Deckop, 1986; Snell, Youndt, & Wright, 1996).

Recently, the study of HRM has adopted a cross-functional approach that has expanded its breadth of analysis beyond the functional tasks of selection, training, compensation, and performance appraisal. One line of research, the strategic human resource management (SHRM) perspective, attempts to align HRM functions and activities with the overarching strategic goals of the organization (Butler, Ferris, & Napier, 1991). The international perspective acknowledges the importance of the global economy, as well as emphasizes the value of designing HR activities that address cross-cultural concerns (Napier, Tibau, Janssens, & Pilenzo, 1995). Finally, the political view assumes that unwritten, informal activities may have consequential effects on the design and implementation of HRM functions and activities. Barney, (1991); Katz & Kahn, (1978); Miles & Snow, (1978), laid the theoretical foundation for the macro-level HRM (i.e., strategic human resource management) research that has proliferated in much of the current literature (Huselid, 1995; Wright & McMahan, 1992).

This era has also brought into the limelight country-level differences with respect to the development of HRM. For example, Ferguson (1961) reviewed the expansion of HRM

activities in the United States, while Farmer (1958) traced the growth of practice in England. Further, Harrell (1953) suggested that the political atmosphere of the country in which an organization resides significantly impacted both research and practice during the early years of the field. Although these reviews were not comparative in nature, they did illustrate that different regions of the world are more (or less) concerned with some HRM activities than others. Moreover, these early reviews provided scholars a point of reference when conducting research assessing cultural implications of HRM (MacDuffie & Krafcik, 1992; Mendonca & Kanungo, 1994).

Related to current research assessing the impact of organizational politics on HRM, Gellerman (1959) outlined the steps necessary to identify influential individuals and made suggestions regarding the tactics used to persuade others. Moreover, researchers acknowledged the value of understanding the "informal" as well as "formal" elements of organizations (Cicourel, 1958). Later, Mintzberg (1983) described politics as

"individual or group behavior that is informal, ostensibly parochial, typically divisive, and above all, in the technical sense, illegitimate - sanctioned neither by formal authority, accepted ideology, nor certified expertise . . ." (p. 172).

Clearly, strategic, international, and political perspectives of HRM represent three of the most significant areas of practical and theoretical concern on which theory and research in HRM has focused in the past decade and a half. As such, comprehensive reviews of the HRM literature have focused a great deal of attention surveying the existing body of literature, as well as prescribing mechanisms for extending research in these important areas. In the following sections, research published subsequent to these prior reviews is examined, and future research directions are offered that may help the field grow even more briskly than it has in the past.

2.1.1. Strategic Perspective on Human Resources Management

Strategic Human Resource Management (SHRM) is an area that continues to evoke a lot of debate as to what it actually embraces Mabey, Salaman and Storey (eds.) (1998). Definitions range from 'a human resource system that is tailored to the demands of the business strategy' (Miles and Snow 1984) to 'the pattern of planned human resource activities intended to enable an organization to achieve its goals' (Wright and McMahan 1992). Although the difference between these two seems subtle, the implications of the difference are considerable. Where in the first definition human resource management is a 'reactive' management field in which human resource management becomes a tool to implement strategy, in the latter definition it has a proactive function in which human resource activities actually create and shape the business strategy (Sanz-Valle et al. 1999).

Over the past 10 or 15 years, numerous theoreticians have argued that the human resources of the firm are potentially the sole source of sustainable competitive advantage for organizations (e.g., Dyer, 1993; Pfeffer, 1994; Snell et al., 1996; Wright & McMahan, 1992). These works have drawn on the resource based view of the firm (Barney, 1991, 1995) and have argued that few of the more traditional sources of sustainable competitive advantage (e.g., technology, access to financial resources) create value in a manner that is rare, non-imitable, and non-substitutable. The degrees of the human resource value creation process, however, are extremely difficult, if not impossible for competitors to imitate, as they are path dependent and causally ambiguous. That is, the complexities created through the social and historical embeddedness of the human resource value HRM programs (Pfeffer, 1989). Whereas each of these programs of research is important and distinct in its own accord, they share a common characteristic. Namely, research in these areas is relatively new and has historically not had the benefit of a richly developed theoretical base to build upon. However, this trend appears to be

changing as researchers have constantly developed conceptual models of HRM that have moved research away from its theoretical origins.

In this section, we re-examine the comprehensive reviews of the HRM literature that have been published, with greater emphasis on those that have surfaced over the last 15 years. A survey of all reviews, as well as an inspection of all major directions of HRM research that have occurred over this time frame, extends beyond the scope of this thesis. Therefore we focus on major trends that have helped shape current modes of thinking in the substantive areas that are discussed more fully in the remaining sections of this review. Specifically, the thesis unfolds as follows:

1. First, we briefly review research that provided the groundwork for contemporary studies in the areas of strategic HRM, international HRM, and political influences on HRM, which appear to be the three dominant perspectives that theory and research in HRM have taken in the past 15 years;
2. Second, we examine more current reviews that have addressed these important topics (Ferris & Judge, 1991; Fisher, 1989; Jackson & Schuler, 1995; Mahoney & Deckop, 1986; Wright & McMahan, 1992); and
3. Finally, we provide a discussion of the "state-of-the-art" research that has extended the body of literature in these substantive areas. Included in this final discussion are prescriptions for integrating interdisciplinary work into future research and suggestions for moving the science and practice of HRM into the next millennium.

Excellent reviews of theory and research on specific HRM practices (e.g., selection, performance appraisal, etc.) have been published in recent years in the volumes of the Handbook of Industrial and Organizational Psychology, the Annual Review of Psychology, the Research in Personnel and Human Resources Management series, and other outlets. We see no reason to duplicate those reviews here. Instead, we take a more refined and focused approach on particular issues and themes in HRM that have emerged in recent years, and which

we feel can lead the field in productive directions.

2.1.2. Theoretical Foundations

Most of the early reviews of the literature are published by notable industrial psychologists, such as Shartle (1950), Brown and Ghiselli (1952), and Harrell (1953). As a consequence, these reviews tend to emphasize applied individual-level issues, such as employee testing, training, and motivation. However, even at these early stages of development, antecedents of what many consider significant contemporary trends in the HRM domain are defined. For example, Gilmer's (1960) discussion of situational variables reveal the importance of matching personnel strategies with organizational strategies. Further, Gilmer (1960) invites researchers to design measures to assess the relationship between "individual personalities" and "company personalities" (p. 337). These contributions, as well as those provided by organizational theorists some years later (e.g., creation process cannot be reverse engineered or easily teased out). This value creation process does meet the criteria for a source of sustainable competitive advantage as set forth by the resource based view of the firm. This argument justifiably focuses academic attention on the competitive imperative to strategically manage the human resources of the firm.

Consequently, a field of inquiry has emerged that actually bills itself as research in strategic human resource management (SHRM). Whereas numerous studies in this area have provided substantial empirical and theoretical contributions to the field of HRM, this area of investigation is still in its infancy, with scholars only recently trying to reach some common theoretical and empirical ground on which to build. Perhaps never before has Mahoney and Deckop's (1986) commentary on the fragmented nature of HRM research been more applicable than to this area of work.

2.1.3. The concept of strategic approach to HRM

Whereas the entire area of exploration is deemed to be strategic in nature, the concept of "strategic" takes on various definitions in the literature. For instance (and addressed at more length in following paragraphs), some researchers have focused merely on the relationship of various human resource practices and systems to firm performance and have labeled this relationship as strategic in the sense that it is extremely important to the organization's objectives of profitability and viability. On the other hand, some research has delved into examinations of "fit" of various human resource practices and systems with the organization's competitive strategy - a quite different notion of "strategic" conceptually. It comes as no surprise, then, that there is little coherence among empirical results in the field.

2.1.4. The approaches to Strategic HRM

Chadwick and Cappelli (1999) articulate both the current state of affairs in SHRM research, and the potential reasons for the lack of consensus reflected in empirical work in this area. They argue that all current approaches to SHRM research are strategic in the sense that they focus on the relationship between sets or systems of HRM practices and policies, and organizational outcomes. This awareness contrasts earlier research that was concerned primarily with individual HRM practices and their contributions to variance explained in some organizational level outcome. Chadwick and Cappelli maintain, however, that researchers have different goals with regard to their particular research in SHRM, and consequently there is considerable variance in the operationalization of the term "strategic." Three approaches to SHRM research are examined.

1. The first stream of research is strategic in the sense that it is concerned simply with the contribution of HRM to the financial performance of the firm. Chadwick and Cappelli (1999) speculate that this body of work is deemed strategic because it examines a chief strategic concern of organizations (i.e., the bottom line).
2. The second approach to SHRM is concerned with organizations' strategic

choices in managing their competitive environments, and the manner in which these choices are reflected in the firms' HRM systems.

3. The third approach identified by the authors investigates the degree of "fit" between organizational strategy and the sets of HRM practices and policies of the firm. In these studies, it is assumed that "external fit" (i.e., fit with strategy) and "internal fit" (i.e., consistencies and synergies among practices) have an impact on organizational outcomes. Consequently, these studies examine the degree to which sets of HRM practices and policies are congruent with those deemed to be most appropriate for their strategic type.

Given these different approaches to SHRM, it is evident that a more consolidated field of investigation would be beneficial to the development of knowledge in this area. Despite shortcomings, however, investigations to date show SHRM to be an fascinating and abundantly fruitful area for research. Along these approaches are several analyses to test the soundness of the three dominant theoretical perspectives in the HRM-firm performance literature: the universalistic, contingency, and configurational perspectives. Results of the analyses provide some support for each of the three perspectives.

2.1.4.1. The universality approach to strategic HRM

Huselid's (1995) work reflects what has come to be known as the "universalistic" approach to SHRM, and it is indicative of the first approach outlined in the Chadwick and Cappelli (1999) categorization. This perspective assumes that there are certain "best" HRM practices that will contribute to increased financial performance, regardless of the strategic goals of the firm. Whereas other scholars have concurred with this assumption (e.g., Delaney, Lewin, & Ichniowski, 1989; Osterman, 1994; Pfeffer, 1994), there has been little work that provides a definitive prescription as to which HRM practices should be included in a "best" practices system. Delaney et al. (1989), for example, utilizes 10 practices that related to selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment, and labour-management participation. Huselid (1995)

adds three additional practices to the list: recruiting intensity, average training hours per year, and the criteria for promotion. Pfeffer (1994), however, advocates the use of 16 management practices to achieve higher productivity and profits.

In recent work, Delery and Doty (1996) identifies seven practices consistently considered to be "strategic" in nature. Practices identified were internal career opportunities, formal training systems, appraisal measures, profit sharing, employment security, voice mechanisms, and job definition.

2.1.4.2. The contingency approach to HRM

A number of theoreticians and researchers, however, argue that a 'contingency' perspective is the more appropriate approach to SHRM (e.g., Butler et al., 1991; Dyer, 1985; Dyer & Holder, 1988; Dyer & Reeves, 1995; Lengnick-Hall & Lengnick-Hall, 1988; Milkovich, 1988; Schuler, 1989; Jackson & Schuler, 1995). The contingency approach differs from the universalistic perspective in that the studies have attempted to link HRM systems and the complementarity of variations of HRM practices to specific organizational strategies (e.g., Arthur, 1994; Youndt, Snell, Dean, & Lepak, 1996). Schuler (Schuler, 1989; Schuler & Jackson, 1987) argued that HRM practices which are not synergistic and consistent with organizational strategy, and which conflict (i.e., with regard to intended outcomes) with other HRM practices are confounding in effect, and create ambiguity that can inhibit both individual and organizational performance.

2.1.4.3. The configurational approach to SHRM

A closely related body of work calls for a 'configurational' approach to SHRM, and argues that it is the pattern of HRM practices that contribute to the attainment of organizational goals (Wright & McMahan, 1992). Similar to the contingency approach, the configurational approach argues that fit of HRM practices with organizational strategy is a vital factor in the HRM-firm performance relationship. However, the configurational approach takes this

argument a step further in asserting that there are specific "ideal types" of HRM systems that provide both horizontal and vertical fit of HRM practices to organizational structure and strategic goals. More specifically, there are certain, specific systems of HRM practices that result in the highest internal consistency and complementarily (horizontal fit), as well as congruence with organizational goals (vertical fit). The configuration of practices that provides the tightest horizontal and vertical fit with any given strategy, then, would be the ideal type for an organization pursuing that particular strategy (Delery & Doty, 1996). Contingency theorists, generally, have not gone so far as to prescribe these ideal types.

2.1.5. Comparative analysis and Research Gaps

All approaches are overwhelmed by many of the same limitations. As noted in previous work (e.g., Becker & Gerhart, 1996; Chadwick & Cappelli, 1999; Dyer & Reeves, 1995), there is little consensus among researchers with regard to precisely which HRM practices should be included. Is there a single "ideal type" of HRM system that is universally effective, or does it depend on the strategy of the firm? Further, if the match of the HRM system to strategy does indeed matter, what HRM practice bundles are appropriate for achieving fit to the various strategies investigated (Wright & Sherman, 1999)? There are glaring discrepancies in the prescriptions made by different scholars in this area. Becker and Gerhart (1996) pointed to internal promotion systems and formal grievance procedures as examples of this inconsistency. Some studies have regarded these HRM practices as "best" or "high performance" practices, whereas others have noted the association of these practices with unionization, and have categorized them as components of bureaucratic HRM systems (Wright & Sherman, 1999).

2.1.5.1. The Issue of Constraints to HRM system

A related area that remains relatively less researched is whether environmental and contextual factors constrain the availability or suitability of HRM system content, and how the

effects of these constraints play out at the individual and organizational levels. Jackson and Schuler (1995) suggest that variations in contextual factors act as constraints on (or enhancements of) the system of HRM practices that may be available or appropriate for implementation in any given organization. They argue that HRM systems may be contingent upon, and directed by, these contextual factors. More specifically, whereas most of the previous research in the HRM area has focused on "high performance practices" or "best practices" as the generic solution to HRM issues, they suggest that this may not be the case.

Certain practices and groups of practices may be more or less effective in the attainment of both individual and organizational outcomes in varying contexts. Further, the implementation of some practices may be totally infeasible given the existence of contextual constraints. Organizational structure and culture, for instance, may pose such constraints. If the structure of the organization is highly hierarchical with an accompanying bureaucratic culture, it is unlikely that participative management could be successfully implemented without significant changes in that structure and culture. Not only is such a structure not conducive to the effectiveness and success of a participative management program, but lines of authority and chains of command might also inhibit the acceptance of such a practice by both labour and management. The potential for contextual constraints on the composition of HRM systems poses interesting questions for future research.

2.1.5.2. The Issue of Current Measures of Strategy

Another troublesome area in SHRM research concerns the measures of strategy used in the studies to date. Whereas inconsistencies in operationalization of HRM systems contribute to the lack of uniformity across studies, differences in the measures of strategy used may also account for the lack of consensus in results. Recent conceptual pieces have been critical of researchers in this area, suggesting that they have incorporated antiquated notions of firm

strategy (e.g., Chadwick & Cappelli, 1999; Wright & Sherman, 1999; Wright & Snell, 1998). Most studies have utilized such typologies as those of Porter (1980) or Miles and Snow (1978). These generic categorizations have little in common with the realities of the modern competitive environment with which organizations are confronted. First, categorizations are exclusive, assuming that organizations pursue a certain strategic goal while ignoring other strategic concerns. Second, they depict the competitive environment, and consequently organizational strategy, as being static instead of dynamic.

There is much evidence that neither of these two assumptions is valid. These typologies assume a specific and narrow strategic positioning of the organization. Whereas organizations may concentrate, to some lesser or greater extent, on any of these particular strategies, there is sketchy and empirical evidence that many factors are strategic considerations in modern organizations (e.g., DeMeyer, Nakane, Miller, & Ferdows, 1989; Harper, 1992). Results of examinations assuming such a restricted view of strategy are necessarily limited. As suggested by Chadwick and Cappelli (1999), future tests of the HRM-strategy relationship might be better served by considering strategy to be along a continuum, involving a number of strategic factors that are seen by the organization to be more or less important as competitive priorities. Research of this nature might provide further insight into the lack of consensus among results that currently exists in the literature.

2.1.5.3. The Issue of Static Competitive environment

The assumption of a static competitive environment, and consequently a static organizational strategy is also an issue that is being increasingly questioned. There is evidence that very few firms operate in static, stable environments. Instead, firms are faced with multiple competitive pressures to which they must respond, and these pressures change rapidly, requiring continual adaptation if an organization is to remain viable. The fact that organizational

environments are dynamic has evoked much speculation about the prescription for tight fit of HRM systems with any particular strategic goal. Chadwick and Cappelli (1999) pointed out the dysfunctionality of external fit in arguing that as fit to external conditions becomes closer or tighter, this can become more problematic as competition changes. Embedded systems and structures are difficult to change under any circumstances, and the greater the intermeshing or fit of such systems, the more entrenched they become, and the more difficult they are to modify.

2.1.5.4. The Issue of organizational flexibility

Increasingly, the field of SHRM is recognizing this need for organizational flexibility, through "flexible HRM systems" or "flexibility-enhancing" HRM systems (Harrell-Cook, 1999), and this appears to be an area in need of further research and development. Wright and Snell (1998) note that fit and flexibility have been depicted by some researchers as opposite ends of the spectrum. They adopt the complementary perspective of Milliman, Von Glinow, and Nathan (1991), however, and argue that both fit and flexibility are necessary to organizational effectiveness. We would carry their argument one step further, and contend that, for firms in highly turbulent environments, flexibility is imperative in order to achieve fit of employee and organizational capabilities with changing competitive priorities. Future research in SHRM should consider that strategy is dynamic in unstable environments. Moreover, examinations into HRM practices and systems that provide the firm with the capabilities to swiftly and easily adapt to changing environmental demands should be conducted.

2.1.5.5. The Issue of HRM-strategy link

Further, investigations into the HRM-strategy link have almost exclusively focused on predominant intended strategy of the firm and assumed that the professed intended strategy is equivalent to the emergent or realized strategy. Examinations based on that assumption

are inherently flawed, as it is an assumption that must certainly prove to hold for few, if any, firms in today's intensely unstable competitive environment. Further, most studies of the HRM-strategy link presume that the intended strategy is uniformly known and understood throughout the organization. Given this uniformity in understanding, HRM professionals have the knowledge and ability to implement policies and practices that would be most effective in achieving strategic goals (an assumption that ignores bounded rationality). The foregoing assumptions are questionable, and should receive consideration in future research in SHRM.

2.1.5.6. The Issue of HRM systems' differential impact on organizational effectiveness

Another issue posed, but as yet unaddressed, is to what extent do the various practices in HRM systems have differential impact on organizational effectiveness, including not only financial performance, but also success in implementing organizational strategy, and achievement of strategic goals. Typically, studies have used an additive measure, combining the specific practices into an outweighed composite. It has been argued that aggregating the data into a composite is appropriate as firms can improve their performance by either increasing the number of HRM practices that they have in place, or by increasing the number of employees to whom these practices apply (MacDuffie, 1995; Youndt et al., 1996). However, if there is a differential impact of various HRM practices on firm performance, the absence (or presence) of any particular practice would have a greater (or lesser) effect on results than is indicated by equal weighting.

A related issue concerns the operationalization of HRM practices in these studies. Specifically, the measures used to date have been very generic in nature. For instance, most studies have asked only the extent to which organizations utilize "formal performance appraisals." However, the use of "formal performance appraisals" can mean very different things in different HRM systems. Are the performance appraisals developmental in nature? Do they include

co-worker or customer input? Are forced rankings used? Are appraisals reflective of traditional subjective supervisory ratings? Certainly, the type of appraisal most conducive to achieving organizational goals would vary across organizational contexts. The generic "formal appraisal" is thereby limited in the amount of information it conveys. The same is true of generic measures of selection methods, reward systems, and other HRM practices. More definitive constructs would provide richer information and insight into the effectiveness of these practices and their appropriateness given variance in organizational goals.

An issue of further concern is that of HRM effectiveness. There are two perspectives of HRM effectiveness in need of theoretical and empirical attention: (1) the effectiveness with which HRM policies and practices are implemented; and (2) the effectiveness of these policies and practices in producing desired results. The only study to date examining these issues was conducted with regard to the second perspective. Huselid (1995) found a positive relationship between HRM capabilities and overall HRM effectiveness, as well as a positive impact of HRM effectiveness on firm performance. Both measures of HRM capabilities and HRM effectiveness, however, were determined through surveys of senior HRM executives. As the potential for bias exists in such measures, other studies utilizing multiple respondents are needed to bolster these findings.

A related question is "effectiveness with regard to what?" Does effectiveness mean primarily firm financial performance? Stockholder satisfaction? Or, are there other measures of effectiveness that need to be considered in order to obtain a more comprehensive understanding of the impact of HRM systems? Many theoreticians have suggested that a **balanced scorecard approach** offers the potential for a more appropriate measure of effectiveness. This approach focuses on multiple stakeholders including investors, customers, and employees, and it has been proposed as a more complete measure of total performance (Ulrich, 1997). The

assessment of effectiveness is simply one more example of conceptualization and measurement issues with which future researchers will be confronted.

2.1.5.7. The Issue of refinement and development of HRM Theoretical models

A final issue, and one that is perhaps most integral to our understanding of the HRM-firm performance relationship is that of the "black box." More specifically, if there is indeed an impact of HRM systems on firm performance, how do these effects occur? What are the mechanisms through which these effects manifest themselves? Do these effects vary under different levels of contextual or environmental factors? These questions call for theory refinement and the development of more comprehensive theoretical models of the HRM-firm performance relationship that include intermediate linkages and boundary conditions.

A recent attempt to more precisely articulate these intermediate linkages and processes was proposed by Ferris et al. (1998). They developed a social context theory of the HRM-organization effectiveness relationship which suggests some specific directions for research in this area. Further, empirical investigations of such models, testing for mediation (intermediate linkages) and moderation (boundary conditions) would greatly enhance our understanding of the dynamics of the HRM-firm effectiveness link. More definitive empirical validation of the "hows" and "whys" of this relationship might also prove to be the most convincing evidence to practitioners of the value of the HRM function. As such, this type of research should be given a high priority by HRM scholars.

Of the issues and research gaps identified in this section, this study will examine further a research question more related to the issue of organizational flexibility. That is public sector organisations flexing themselves to accommodate market-type managerial practices. In particular the research will look at the compatibility of market-type motivational devices such as performance-related pay schemes using the case study of British local authorities.

However, before we narrow our focus to this end let us first of all review the underlying literature on motivation. This is the concern of the next section.

2.2. The Theory of Motivation

Application of the theory of motivation is based on a number of assumptions and generalisations. In addition to examining the compatibility of market-type managerial practices and extracting lessons there from, this study seeks to attest five of the theorems of motivation (AGREE) by using the case of PRP schemes in British local authorities. The purpose of this chapter therefore is to review the main theories and conceptual framework of motivation and its role in managing peoples' performance at workplaces.

Motivation as an issue pervades the study of PM and employee compensation and reward systems. The key question of reward systems is "What makes us tick?" Ideas about motivation are fundamental to several theoretical responses to that question (Kleinbeck, et al, 1990). Theorists differ in the emphasis which they place on the dynamic and motivational aspects of performance, depending on the aspects of personality, which are the focus of their interest.

2.2.1. Definition of motivation

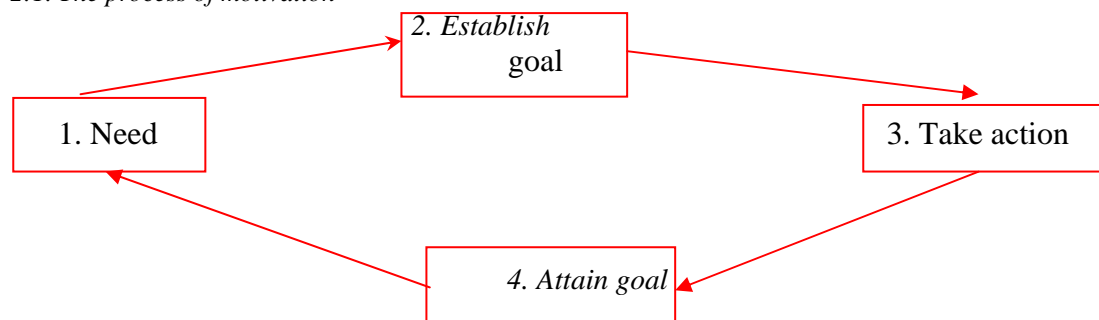
Motivation is incidental to or defined by goal-directed behaviour (Locke, op. cit.). This implies that motivation is concerned with the strength and direction of that behaviour. In other words it implies that motivation takes place when people expect that a course of action is likely to lead to the attainment of a goal and a valued reward - one which satisfies their particular needs. Well-motivated people are therefore those with clearly defined goals who take action which they expect will achieve those goals (Erez and Zion, 1984). They make effective contributions at work because of strongly developed feelings of behavioural commitment. As the literature argues they acknowledge that their efforts are required to further both the needs of the

organisation and their own interests (Tarkenton, 1986, and Robinson, 1992). Therefore, in the context of PM model, the process of motivation entails positive reinforcement progression.

2.2.2. The Process of Motivation

The process of motivation can be modelled as shown in Figure 2.1 below. This is a needs-related model and it suggests that motivation is initiated by the conscious or unconscious recognition of unsatisfied needs. These needs create wants, which are desires to achieve goods or obtain something.

Figure 2:1. The process of motivation



Source: Armstrong, M. (1993)

Goals are then established which will satisfy these needs and wants and a behaviour trail is selected which it is expected will facilitate the achievement of the goal. If the goal is achieved the need will be satisfied and the behaviour is likely to be repeated the next time a similar need emerges. If the goal is not achieved the same action is less likely to be repeated.

This model describes how individual motivation process takes place. It is based on the motivational theories related to needs (achievements), goals, equity, behaviour modelling (reactance) and expectancy, as described later in this chapter. It is also influenced by three concepts relating to motivation and behaviour: reinforcement (Hull, 1951), homeostasis, intrinsic and extrinsic theories. The model can be used to illustrate a process of motivation which involves setting of corporate goals that are likely to meet individual and organisational needs and wants, and encourage the behaviour required to achieve those goals.

2.2.3. Reinforcement theory and motivation

As experience is gained in taking action to satisfy needs, people perceive that certain actions help them to achieve their goals while other actions are less likely. Some actions bring rewards; others result in failure or even punishment. Reinforcement theory, as developed by Hull (1951), suggests that successes in achieving goals and rewards act as positive incentives and reinforce the successful behaviour, which is repeated the next time a similar need emerges (Daniels, 1989).

The implication of reinforcement theory in the role of motivation in managing and rewarding performance is that the more powerful, obvious and frequent the reinforcement, the more likely it is that the behaviour will be repeated until, eventually, it can become a more or less unconscious reaction to an event. Conversely, failures or punishments provide negative reinforcements, suggesting that it is necessary to seek alternative means of achieving goals. This process has been called the 'law of effect' (Armstrong, op. cit.).

The degree to which experience shapes future behaviour does, of course, depend, on two main factors. Firstly, on the extent to which individuals correctly perceive the connection between behaviour and its outcome. Secondly, on the extent to which they are able to recognise the resemblance between the previous situation and the one that now confronts them. Perceptive ability varies between people, as does the ability to identify a correlation between events. For these reasons, some people are better off at learning from experience than others; just as some people are more easily motivated than others.

Insufficient attention is paid in motivation theories to the influence of expectations. No indication is given of any means of distinguishing in advance the class of outcomes, which would strengthen responses and those which would weaken them. It is therefore important to understand how the 'law of effect' operates when managing and rewarding

performance at workplaces.

2.2.4. Intrinsic and extrinsic motivation

Legge (1995) suggests that an individual can usefully be conceived as a system of biological needs, psychological motives, values and perceptions. This means that an individual's system operates so as to maintain its internal balance in the face of the demands placed upon it by external forces and it develops in response to his or her basic needs to solve the problems presented by the external environment. But an alternative argument could be that each individual system will have unique characteristics because different individual systems develop with different patterns of needs, values and perceptions; and individual systems are not static, but continue to develop as they encounter new problems and experiences.

Motivation at work can take place in two ways. First, people can motivate themselves by seeking and carrying out work (or being given work), which satisfies their needs or at least leads them to expect that their goals will be achieved. Secondly, management can motivate people through such methods as pay, promotion, praise, recognition etc. Respectively, these two types of motivation can be described as intrinsic and extrinsic motivating factors

The main difference between these two types of motivation is that extrinsic motivators can have an immediate and powerful effect, but it will not necessarily last long. Intrinsic motivators, which are concerned with the 'quality of working life' (a phrase and movement which emerged from this concept), are likely to have a deeper and longer-term effect because they are inherent in individuals and not imposed from outside.

2.3. Developments in the theories of motivation

The process of motivation is broadly based on a number of theories, which attempt to provide an in-depth understanding of what it is all about. These theories have proliferated

over the years and include, among others: (a) the *instrumentality theories* - based largely on the scientific management writings of Taylor (1890, 1911); (b) the *needs or content theories* - as developed by Maslow (op. cit.), Alderfer (1972) and McClelland (1975); (c) the *process or cognitive theories* - which are concerned with the psychological processes or forces which influence motivation as affected by people's perceptions of their working environment and the ways in which they interpret and understand it.

The process theories embrace the expectancy theory (Vroom, 1964), goal-setting theory (Locke and Latham, 1968, 1990), reactance theory (Brehm, 1966) and the equity theory (Adams, 1965). Others included are Herzberg's (1957) - two factor (motivation-hygiene) theory; behavioural theory (Skinner, 1974); and social-learning theory - as developed by Bandura (1977). It is beyond the scope of this chapter to review all of these theories in detail. However, but for their relevance to the conceptual framework of this study, process theories of motivation are briefly reviewed in the next subsections. Process motivation theories which are also known as cognitive theories are most important because they are concerned with people's perceptions of their working environment and the ways in which they interpret and understand them. Process theories are certainly more useful to managers than needs theories because they provide realistic guidance on motivation techniques.

2.3.1. Process (or Cognitive) theory of motivation

In the process motivation theory, the emphasis is on the psychological processes or forces that affect motivation, as well as on basic needs. Process or cognitive theory can certainly The processes are expectations (expectancy theory); goal achievement (goal theory); behavioural choice (reactance theory); perceptions or feelings about equity (equity theory) and self-efficacy theory (Bandura, 1997). These theories (abbreviated as AGREE in this thesis) have a direct linkage to this research and will provide a useful analytical framework when

examining the role of motivation in managing performance. They are briefly conceptualised below.

(a) Expectancy theory of motivation

The concept of expectancy was originally contained in the valency-instrumentality-expectancy (VIE) theory, which was formulated by Vroom (1964). The Expectancy theory has three main motivational forces based on 'valence', 'instrumentality' and 'expectancy'. Valence stands for value – meaning the attractiveness of the outcomes. Instrumentality refers to the degree to which improved job performance is expected to lead to desired outcomes, i.e. the belief that if we do one thing it will lead to another. Expectancy entails the degree to which increased effort is perceived to lead to increased job performance i.e. the probability that action or effort will lead to an outcome.

This concept of expectancy was defined in more detail by Vroom as follows:

“Whenever an individual chooses between alternatives which involve uncertain outcomes, it seems clear that his behaviour is affected not only by his preferences among these outcomes but also by the degree to which he believes these outcomes to be possible. Expectancy is defined as a momentary belief concerning the likelihood that a particular act will be followed by a particular outcome. Expectancies may be described in terms of their strength. Maximal strength is indicated by subjective certainty that the act will be followed by the outcome, while minimal (or zero) strength is indicated by subjective certainty that the act will not be followed by the outcome.”

Motivation is only likely when a clearly perceived and usable relationship exists between performance and outcome, and the outcome is seen as a means of satisfying needs. This explains why extrinsic financial motivation - for example, an incentive or bonus scheme - works only if the link between effort and reward is clear and the value of the reward is worth the effort. It also explains why intrinsic motivation arising from the work itself can be more powerful than extrinsic motivation; intrinsic motivation outcomes are more under the control of individuals, who can place greater reliance on their past experiences to indicate the extent to

which positive and advantageous results are likely to be obtained by their behaviour.

Porter and Lawler (1968) developed this theory into a model, which follows Vroom's ideas by suggesting that there are two factors determining the effort people put into their jobs: (a) The value of the rewards to individuals in so far as they satisfy their needs for security, social esteem, autonomy, and self-actualisation; and (b) The probability that rewards depend on effort, as perceived by individuals - in other words, their expectations about the relationships between effort and reward. Thus, the greater the value of a set of awards and the higher the probability that receiving each of these rewards depends upon effort, the greater the effort that will be put forth in a given situation.

These are good from the viewpoint of the organisation if they correspond with what it thinks the individual ought to be doing. They are poor if the views of the individual and the organisation do not coincide. This shows how important it is to apply a PM model, which attempts to match both individual and organisational goals and needs, and sets forth a balanced strategic action plan necessary to achieve both of them.

Expectancy theory is a theoretical framework that may be used to understand why PRP succeeds or fails to motivate staff. It argues that a new reward system will succeed in motivating employees if and only if three separate conditions are satisfied; employees must believe that they can achieve what is being asked for; employees must believe that achieving what is asked for will reliably generate the new rewards on offer; and employees must value the new rewards sufficiently. If, therefore, public sector managers do not feel able to achieve what is being asked for by the community, or if they do not believe that changing their behaviour will reliably bring them the rewards, or if they do not think the additional rewards on offer are big enough, then expectancy theory predicts that the new system will fail to enhance their motivation.

(b) Goal-setting theory of motivation

Specificity of goals theory (Locke, op. cit; Locke and Ladham, 1968, 1990) explains the ‘*goal setting*’ motivational force. Specific goals increase the desire to performance even better, and difficult goals, when accepted, result in higher performance than easy goals. The main strands of the goal-setting theory are that there must be optimal level of challenge; goal clarity; and feedback – feed-forward loops or management information systems (MIS). An important implication of this path-goal theory of motivation is that individuals tend to choose which goals they want to pursue and the appropriate conduits that will help them achieve these goals. Individuals subjectively measure the probability of each course achieving success and then choose one with the greatest chance of success.

This theory is based on three basic arguments. First, individuals have different goals. Secondly, that people only act to achieve their goals if there is a chance of success. Thirdly, that the value of the goal affects the level of motivation. The goal theory is in line with the 1960s concept of management by objectives (MBO). The MBO approach, however, often failed because it was tackled bureaucratically without gaining the real support of those involved and, most importantly, without ensuring that managers were aware of the significance of the processes of agreement, reinforcement and feedback, and were skilled in practising them. In the contrary, the goal theory plays a vital role in the PM processes, which were evolved from the largely discredited MBO approach.

Goal setting theory focuses on the nature of the objectives laid down or agreed to in the first step of the performance management process. More generally, goal setting theory predicts that performance management systems are more likely to enhance employee motivation if they result in goals that are well-defined rather than vague, specific rather than general, and challenging rather than easy to attain. Remember the SMART acronym, which

emphasises that goals or objectives should be specific, measurable, achievable, realistic and time-bound. Consequently, goal setting theory suggests that a multiplicity of goals is likely to cause problems, because it reduces goal clarity. Being under pressure to meet many goals, especially where some of them are ambiguous, makes it difficult for employees to focus their efforts properly.

Over and above these properties of goals, however, goal setting theory also predicts that employee motivation will be enhanced only if people not only accept, or are committed to, the goals that are set, but also if they participate in the whole process of setting them. This requires them to believe that their goals are attainable and legitimate. The relevance of this theorem for this study is that for local government officers, this must mean that the objectives should make sense to them as professional public service managers and not violate their professional judgments. It also means that an employee should trust the person setting the goals; externally imposed goals may be rejected as illegitimate (for a more extended treatment of goal setting theories, and the other theories discussed here, see Arnold et al, 1995).

(c) Achievement theory

Another refinement of the process theory of motivation is that of McClelland (1975). He argues that the need for achievement is strongly associated with the success of the manager. The implication of the McClelland's argument is that the ideal manager would always want to work more effectively, would want to come up with new ideas and to get things done! McClelland (ibid) suggests that managers with a high need to achieve shared certain attributes. These include: a preference for situations where they can take responsibility; they were moderate risk takers; and they needed clear objectives and tasks with regular feedback.

The success of the manager is a function of the need for achievement. Therefore, effectiveness of a manager, innovative ideas and passionate to achieve targets are all main features of

the achievement theorem. In other words, we could say that an ideal manager would always want to achieve and cultivate the 'achievement culture' within his/her organisation.

(d) Reactance theory of motivation

Reactance theory is a behavioural modelling concept and was formulated by Brehm (1966). It is based on the premise that to the extent that people are aware of their needs and the kinds of behaviours necessary to satisfy these needs, and providing they have the appropriate freedom, they can choose behaviour patterns so as to maximise need satisfaction. If, however, this freedom to act is threatened, people will be motivationally aroused and react in accordance with the principle of homeostasis, to avoid any further loss of freedom. In essence, as Brehm says:

“Given that a person has a set of free behaviours, he (she) will experience reactance whenever any of these behaviours is eliminated or threatened with elimination, and when a free behaviour of an individual is eliminated (or threatened) his desire for that behaviour or for the object of it will increase (1966:122).”

The implication of this theory for this research is that individuals are not passive receivers and responders. Instead, they actively strive to make sense of their environment and to reduce uncertainty by seeking to control factors influencing rewards. “You may take a horse to the water but you can not force it to drink!”. So are human beings. Management may have all sorts of brilliant ideas about motivating employees, but they will not necessarily work unless they make sense to the people concerned in terms of their own values and orientations. People will also be motivated to increase performance when social comparisons are favourable. This is the concern of the equity theory as reviewed below.

(e) The equity theory of motivation

Adams (1965) derived the equity theory after observing the tendencies of people making 'social comparisons' about their earnings. An employee compares his/her job's inputs:outcomes ratio with that of referents'. The equity theory then argues that if the employee

perceives inequity, he/she will act to correct that inequity, which may be in terms of lower productivity; reduced quality; increased absenteeism; and voluntary resignation (Adams, *ibid.*).

The main motivational forces of the Equity theory are the 'income:outcome' ratio; over-compensation; and under-compensation. Other important fairness ratios of the equity theory are the contribution:reward ratio, and the effort:reward ratio. Therefore the designing of any compensation and reward system should take these ratios into account for such an incentive scheme to be effective.

Equity theory stresses the importance of relative wages. This might refer to wages of some employees relative to others, or of managers relative to other professions. Therefore, the theoretical implication of this study is that individual PRP systems inevitably change the distribution of wages within a profession, which may raise inequity issues leading to some degree of de-motivation for those who think the new distribution is unjust.

In effect, the practical implication of the equity theory is that people will be better motivated if they are treated equitably and de-motivated if they are treated inequitably. This theory explains only one aspect of the processes of motivation and job satisfaction, although it may be significant in terms of morale. Jaques (1961) also emphasises the need for such systems to be perceived as being fair and equitable. In other words, the reward should be clearly related to effort or level of responsibility and people should not receive less money than they deserve compared with their fellow workers. Jaques (*ibid.*) calls this the '*felt-fair*' principle. The next section attempts to examine the relationship between motivation theories and performance because it is this linkage, which underpins the nature of this research.

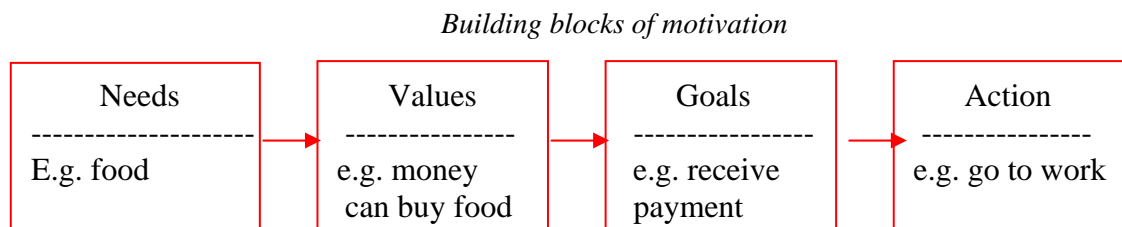
These theories raise at least four fundamental questions about the structure and mechanics of PRP regimes in general, and about those other issues of addressed in this study in particular.

First, is goal clarity likely to be secured? Second, is goal commitment likely to be secured? Third, are people likely to be confident that they will be given the rewards if they deliver on their objectives? Fourth, are the rewards on offer sufficiently attractive?

2.3.2. Motivation - Performance linkage

Money, in the form of pay or some other sort of remuneration, is the most obvious extrinsic reward. Money provides the carrot which most people want. However, doubts have been cast in the literature on the effectiveness of money. It is argued that while the lack of money can cause dissatisfaction, its provision does not result in lasting satisfaction either (Herzberg *et al* (1957). There is something in this, especially for people on fixed salaries or rates of pay who do not benefit directly from an incentive scheme. They may feel good when they get an increase; apart from the extra money, it is a highly tangible form of recognition and an effective means of helping people to feel that they are valued. But this feeling of jubilation can rapidly die away.

Figure 2.2: Performance, Pay and Motivation Model



Source: Locke and Henne, 1986

Locke and Henne (1986) argue that there is a strong link between an employee's performance, pay and motivation. This linkage can be perfected by the building blocks as illustrated in Figure 2.2 above.

As noted by Goldthorpe, *et al* (1968) from their research into the 'affluent worker', pay is the dominant factor in the choice of employer and considerations of pay seem most powerful in binding people to their present jobs. Financial incentives do motivate people who are strongly

motivated by money and whose expectations that they will receive a financial reward are high. But less confident employees may not respond to incentives, which they do not expect to achieve. It can also be argued that extrinsic rewards may erode intrinsic interest - people who work just for money could find their tasks less pleasurable and may not, therefore, do them so well. What we do know is that a multiplicity of factors is involved in performance improvements and many of those factors are interdependent. Money can therefore provide positive motivation in the right circumstances not only because people need and want money but also because it serves as a highly tangible means of recognition. But badly designed and managed compensation and reward systems can demotivate.

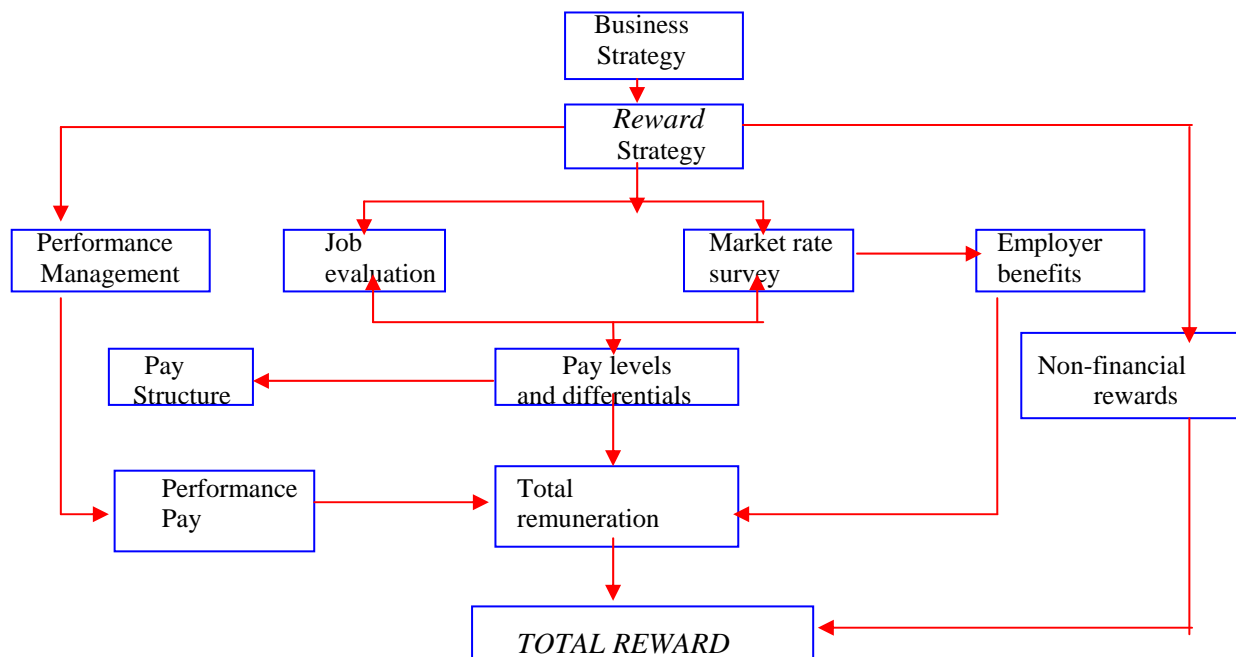
Verhellen (1994) argues that motivation strategies aim to create a working environment and to develop policies and practices, which will provide for higher levels of performance from employees. According to Tarkenton (1986), they will be concerned with measuring motivation to provide an indication of areas where motivational practices need to be improved; ensuring, so far as possible, that employees feel they are valued; developing behavioural commitment; developing an organisation climate which will foster motivation; improving leadership skills; job design; PM; compensation and reward management; and the use of behavioural modification approaches. One of these strategies, reward systems management is briefly conceptualised in the following subsections. Another relevant strategy for this research, performance management, is discussed in detail in chapter three.

2.4. Compensation and Reward Systems (CRS) management theory

Employee reward systems management is concerned with designing, implementing and maintaining reward systems, which are geared to the improvement of organisational team and individual performance (Armstrong, 1993; Beaumont, 1993). This aspect of personnel

management used to be called *salary administration*, but is now regarded as a limited description of one aspect of the whole subject of remuneration (Butler, 1986).

Figure 2.3: The Reward System Model



Source: Armstrong, M. (1993)

Figure 2.3 above is a model which demonstrates that an employee reward system consists of an organisation's integrated policies, processes and practices for rewarding its employees in accordance with their contribution, skill and competence and their market worth. It is developed within the framework of the organisation's reward philosophy, strategies and policies. The model contains arrangements in the form of processes, practices, structures, and procedures which will provide and maintain appropriate types and levels of pay, benefits and other forms of total reward.

2.4.1. Designing strategy of compensation and reward systems

According to leading CRS theorists there should ideally be a two-way relationship between reward systems and strategic planning (Butler, op. cit.; Armstrong, op. cit.; and Beaumont, op. cit.). This link requires an organisation to consider the essence of its compensation philosophy. Table 2.1 below presents a list of some of the leading issues and questions which are embedded in such a compensation philosophy that need to be considered in the formulation or design

of a CRS policy.

Table 2.1: Strategic issues in the design of compensation-reward systems

The basis for rewards - The issue is whether pay is to be job-based or skills or competence-based.
Pay for performance - Questions here include the extent of performance-based pay, the particular aspects of performance and whether it is based on individual or group performance.
Market position - The issue here is how their reward system compares to that of other organisations.
Internal-external pay comparison-orientated :- The issue here is the relative emphasis given to the attainment of internal or external equity.
Centralised-decentralised reward strategy :- The issue here is the extent to which one seeks to standardise reward systems throughout the organisation.
Degree of hierarchy:- The question here concerns whether an organisation seeks a relatively hierarchical or egalitarian reward system.
Reward mix :- The issue here is the balance between pay and benefits, financial and motivational rewards, intrinsic and extrinsic motivation.
Process issues:
Communication policy :- The question is how relatively open or closed communication policy concerning reward systems should be adopted.
Decision-making practices:- The question here concerns the extent or range of individuals involved in the relevant processes of decision-making.
Reward system congruence :- The need is to ensure that the various design features of reward systems are internally consistent and consistent with the nature of larger organisational strategy.

Source: Adapted from Edward E. Lawler III, (1984)

The need to establish such a linkage is derived from the potentially powerful impact of compensation systems on organisational performance via a number of routes, such as attracting and retaining labour, motivating employees and reinforcing organisation culture.

2.4.2. Elements of an employee compensation-reward system

With reference to Figure 2.3 above, a reward system consists of financial and non-financial rewards. Financial rewards of an employee consist of fixed (and/or variable) pay and employee benefits, which together comprise total remuneration. The system also incorporates non-financial rewards (recognition, praise, achievement, responsibility and personal growth) and, in many cases, performance management processes. These include any rewards,

which focus on the needs people have to varying degrees for achievement, recognition, responsibility, influence and personal growth. These two forms of elements of a reward system are discussed below.

2.4.3. Employees' Compensation-Reward Strategy

Reward strategy defines the intentions of the organisation on how its reward policies and processes should be developed to meet business requirements. The fact that payroll costs can comprise 70 per cent or more of the total costs incurred by an organisation explains the need to adopt a strategic approach to reward which ensures that added value is obtained from any investment in pay.

An effective reward strategy

An effective reward strategy is based on several attributes including corporate values and beliefs; flows from the business strategy to which it also contributes; and is driven by business needs and 'fits' the business strategy. The strategy should also be seen to align organisational and individual competences; integrate with other personnel and development strategies; and be congruent with the internal and external environment of the organisation - the content of the strategy will be contingent on those environments. An effective reward strategy provides for the reward of results and behaviour that are consistent with key organisational goals, thus driving and supporting desired behaviour. The strategy must be linked to business performance which adopts a competitive strategy perspective that is practical and implementable. Finally, the strategy must have been evolved in consultation with key stakeholders, taking full account of their views on what they believe is best for them – unless such an account is taken, reward initiatives like performance pay can fail totally.

2.4.4. Developments in the Reward Systems management scene

The theories of motivation as reviewed in this chapter are relevant for this study because they explain how individuals can be influenced to adapt new behaviours and illustrate the various drivers of employee performance. However, effective implications of these motivational forces can depend on two variables (Dixon, *et al.* 1998): (i) The individuals' attitudes and values, notably their capacity and willingness to build the motivation they need to adopt new behaviours; and (ii) The individuals' personal characteristics, notably their capacity and willingness to be critically observant of their own behaviours and motivators, so developing the capacity to manage their own behaviour change.

Within personality theory, theorists such as Murray (1989) have placed a heavy and explicit emphasis on the motivational process itself and the variety of needs, which motivate human behaviour, such as need for affiliation, need for nurturance and so forth and so on. Other motivational theorists have concentrated on non-biological or particularly human motivations, such as achievement motive (McLelland, *ibid*) or the power motive (Wright, 1994). Whereas all of the motivation ideologies are predominantly private sector based, the observed theoretical gap is their implication and compatibility in a public sector environment during this NPM era.

A survey of pay systems practice in 480 British organizations conducted by the CBI and Hay Management Consultants (1996) found that: 'The most significant factors driving change in pay and benefit policy are the need to strengthen the link to business performance, cost control, support for organisational change and recruitment and retention pressures. The need to provide more flexibility in pay and benefits systems is expected to become more important.'

The survey provided the following information on developments in the participating organizations: almost half had changed some area of their pay strategy or policy in the last two years, the main areas being in pay structure, pay progression practice and the introduction of profit-related pay; 13 per-cent plan to introduce team pay; 30 per cent are

making changes to their benefits packages, mainly to provide more flexibility; around 17 per cent plan to introduce a broadband pay structure; and 45 per cent have introduced or plan to introduce some form of competency or skill-based HRM, mainly for training and development purposes and as a basis for PM. This survey and other recent UK studies (Armstrong and Baron, 1995) have suggested the main areas where changes are taking place or at least being contemplated are in reward policies and practices.

These are summarised in as follows:

From	To
1. Narrowly defined jobs and job standards.	Broader generic roles - emphasis on competence and continuous development.
2. Inflexible job evaluation systems sizing tasks, rewarding non-adaptive behaviour and empire building and encouraging point-grabbing.	Flexible job evaluation processes assessing the value added by people in their roles, often within job families.
3. Hierarchical and rigid pay structures in which the only way to get on is to move up. Focus is on the next promotion.	Broad-banded pay structures where the emphasis is on flexibility, career development pay and continuous improvement. Focus is on the next challenge.
4. Emphasis on individual PRP.	More focus on team performance through team-based pay
5. Consolidation of rewards <i>into</i> base pay.	More emphasis on variable or 'at risk' pay.

Source: Armstrong and Baron, 1995

These movements include innovations such as competence-related pay, broad-banding and team pay, which are the most forward looking of the current developments taking place in the context of increased devolution of pay decisions to line management and more involvement of employees. They also reflect an increasing strategic concern about getting value for money from the reward system as evidenced by the increased interest in variable pay. Compensation and reward management processes as covered in Chapter Four can provide direct motivation through various forms of performance-based pay as long as close attention is given to the significance of AGREE theories.

(a) Paying for performance — incentive or reward?

When defining the objectives of pay-for-performance schemes, many people treat the terms incentive and reward as being interchangeable. But there are significant differences, and when defining objectives and evaluating results it is necessary to distinguish between them. The essential distinction is that incentives are forward-looking while rewards are retrospective. *Financial incentives* are designed to motivate people to improve their performance – to make a greater contribution by increasing effort and output and by producing better results expressed in terms of objectives and targets for profit, sales turnover, productivity, cost reduction, quality, customer service, turnaround and delivery on time.

Financial rewards provide extra money for achievement in terms of contribution or output. The emphasis is on recognition and on equity, in the sense of paying people according to their just deserts ('the labourer is worthy of his hire'). Recognition is, of course, an important form of motivation and therefore may provide an incentive, but the relationship between pay and future performance is not always as clear as some people would like to believe. This difference highlights the fact that schemes which are designed to provide motivation and incentives may in practice fail to do this directly, although they will be a useful means of recognising contribution. This distinction points the way to another aspect of reward processes about which there is often confusion — the difference between incentives and bonuses.

(b) The difference between incentives and bonuses

The terms incentive and bonus are often contrasted. In this thesis, the terms resemble each other in that they are both payments, which are linked to performance. But there the similarity ends. *Incentives*: are payments linked to the future achievement of previously set and agreed targets; and *bonuses*: are essentially rewards for success and are paid out as a lump sum.

2.5. Conclusion

This chapter has reviewed the theoretical frameworks of HRM and has explored the various theories of motivation, which explain and amplify the basic process of rewarding performance. The chapter has also examined the implications of these theories on PM and reward systems management. Essentially, the chapter has argued that a considerable number of changes have taken place in both the science and practice of human resources management (HRM) some of which having interesting integrative potential with HRM to produce innovative and insightful streams of research. Some of these have already been suggested and are underway, whereas others are newer ideas, but all could benefit from more extensive development of the science and practice of HRM.

Secondly, the chapter argues that motivational theories underpin the examination of the role of compensation and reward systems in the goal achievement process. It has described a way to look at motivational and cognitive processes and the interaction between both. More importantly, the chapter has revealed that this theoretical framework outlines the central variables that constitute a successful PM process in organisations. Goal setting, feedback mechanisms, and moderators or drivers of the transformation of goals into results have constituted the focus of the review.

All the motivational theories reviewed so far explain how employees' behaviour can respond to various personal, organisational and environmental variables to influence performance. A host of theories have been developed to address behavioural issues and some of these are discussed in Chapter Three. However, the conclusions we may derive from the foregoing literature review are that: (i) employees aiming to increase their wage are less likely to show an interest in job satisfaction; (ii) employees not involved in increasing their wage are more likely to show

an interest in job satisfaction; (iii) an organisation cannot generalise about what motivate employees.

The key issues involved in the design of an employee motivation policy include organisational capacity to operate the incentive schemes, the framework within which the schemes have to operate, and the perception of stakeholders about equity of the schemes. The aim is to understand the fundamental motivational structures of achievement behaviour and to test these motivational theorems that are crucial for the efficiency and effectiveness of managers at work. Before we focus on the methodology of examining these issues let us review further the conceptual frameworks of HRM system and the PM model within which the CRS policy is designed to operate. This is the concern of Chapter Three below.

Chapter Three

THE THEORY OF HRM AND PERFORMANCE MANAGEMENT

3.0. Introduction

This study examines performance-based incentive schemes (PBIs) and reward systems management as an important dimension of the performance management (PM) model. The previous chapter has reviewed the literature on the mainstream theories of Human Resource Management, Motivation and Reward Systems. Its main purpose was to pinpoint the important attributes, concepts and theories of HRM, motivation, compensation and reward policy. This chapter examines the framework within which such a policy is designed to operate and its linkage with HRM systems.

The chapter is divided into three main parts. The first part reviews the existing literature on HRM and performance in the light of the existing association between the two in order to identify key gaps in knowledge and help to focus further the research priorities. It also presents a model within which to explore these linkages. The second section dwells on the relevance of behavioural theory on managing performance. This is followed by the conceptual framework of performance and the PM process. The ultimate focus is on the implication of the PM model on organisational strategy and how the PM model can be applied to modify the behaviour of employees. The third part is on performance measurement processes and reward policy themes and contrasts between three main performance measurement and control techniques. The chapter concludes by looking at the PM model as a tool for strategic HRM.

3.1. HRM and Performance: a review and research agenda

The impact of human resource management on performance has become the dominant

research issue in the field. There has been a rash of studies demonstrating a positive association between human resource management (HRM) and performance, providing encouragement to those who have always advocated the case for a distinctive approach to the management of human resources. While these studies represent encouraging signs of progress, statistical sophistication appears to have been emphasized at the expense of theoretical rigour. As a result, the studies are non-additive, except in a very general way. The aim of this section is to present a form of research agenda which seeks to reintroduce theory into the empirical debate and to use this to review some of the emerging empirical findings.

If we are to improve our understanding of the impact of HRM on performance, we need a theory about HRM, a theory about performance and a theory about how they are linked. The interest in HRM and performance partly respects a view that the debates about theory in HRM had become rather reflective and boring. Perhaps it is only when the empirical data begin to emerge that we realize how important the theory is. Lets begin by briefly reviewing where we stand on theories of HRM, of performance and of the link between them and then review some of the recent literature within a simple framework. Finally, we outline the issues emerging from this review and highlight some of the developments that need to occur in theory and practice if we are to improve our understanding of HRM and performance.

3.1.1. Theory about human resource management

In any empirical study, we need to have a clear view about our independent variable. At present we seem to have only confusion. There appear to be three broad categories of general-level theory about HRM and a host of more specific and concrete theories about particular areas of policy and practice, such as quality, commitment and performance-related pay (PRP). The three categories of theory can be labelled strategic, descriptive and normative.

3.1.1.1.Strategic theories of HRM

These are primarily concerned with the relationship between a range of possible external contingencies and HRM policy and practice. Some of the best-known UK research in this category has been reported by Hendry and Pettigrew (1990) whose main concern was to identify and classify key environmental influences on HRM. In their work, HRM policy and practice becomes, in a sense, the dependent variable, judged in terms of how well it fits the context. The implicit but untested hypothesis is that a good fit will be associated with superior performance. In their research, Hendry and Pettigrew concentrated on mapping the context, identifying an inner context (within the organization) and an outer context (in the wider environment) and exploring how HRM adapted to changes in context rather than analysing any link to performance.

In the USA, attention has focused more on classifying types of HR strategy, often drawing on existing models of corporate strategy. One frequently cited example has been presented by Miles and Snow (1984), building on their earlier work on strategy and structure. They propose that each of their strategic types of firm will need to adopt a different set of HRM policies and they are reasonably precise about some of the variations. Again the hypothesis is that those firms that have a fit between business strategy, structure and HRM policy and practice will have superior performance. A similar rationale lies behind the work of Schuler and Jackson (1987) which outlines three HRM strategies linked to Porter's (1980) three general competitive strategies.

There are several other writers whose work falls within this broad focus on strategy. They are helpful in identifying influences on strategic fit and sometimes in specifying types of fit. But they are often simplistic in characterizing HRM, usually identifying about four broad areas of activity such as selection, training and development, rewards and careers. While the implication is that those firms achieving fit between business strategy and HRM strategy will

have superior performance, they are weak in specifying the process whereby HRM is linked to performance. Finally, they generally adopt a limited view of performance, defining it largely in financial terms.

3.1.1.2. Descriptive theories of HRM

These set out to describe the field in a comprehensive way. The two best known are those presented by Beer and his colleagues from Harvard (Beer *et al.* 1985) and by Kochan, Katz and McKersie (1986) from MIT. In both cases, there is an attempt to capture the broad field and to address some of the interrelationships. For Beer *et al.* this means listing four broad areas of HRM policy and practice and four key outcomes. For Kochan and colleagues it entails a systems approach, describing the interrelationships between levels. Both are essentially descriptive, mapping the field and classifying inputs and outcomes. Both can be developed into theory, but only at a very general level of specification. A strength and a weakness in this respect is the emphasis on an open systems approach which may accurately capture an element of reality but fails to offer specificity.

By providing conceptual maps of the field, these models do provide a broad classification of the content of HRM and of a range of outcomes. Both are useful in adopting a stakeholder approach and in identifying a range of outcomes of interest to the various stakeholders. However, they are essentially employee relations models concerned with the managers' role in balancing competing interests, in highlighting the scope for choice and in identifying some of the influences on the choices. Despite implicit preferences on the part of their authors, by specifying a range of choices and not recommending specific approaches, they are largely non-prescriptive. They therefore provide no clear focus for any test of the relationship between HRM and performance.

3.1.1.3. Normative theories of HRM

Models or theories of this type are more prescriptive in their approach, reflecting the view either that a sufficient body of knowledge exists to provide a basis for prescribed best practice or that a set of values indicates best practice. Often these two perspectives become conflated. One of the best known examples of this approach is Walton's work on control and commitment (Walton, 1985). In presenting the contrast between the two approaches to the management of human resources, he follows McGregor (1960) some twenty-five years earlier in saying these are in one sense ideal types but in practice if you wish to flourish you have no choice. He is prescribing a commitment strategy as the distinctive basis for HRM. The same general analysis can be found in the work of Lawler (1986, 1992), although he uses the language of involvement rather than HRM.

More recently, the work of Pfeffer (1994) has attracted a lot of attention. He lists sixteen HRM practices (subsequently amended to thirteen (Pfeffer, 1995) on the grounds that the precise number and presumably the precise nature of the practices is neither clearly known nor particularly important) which he advocates on the grounds that their positive effects are now well established. This fits with an essentially a theoretical stream of work about 'high performance' work practices.

Guest (1987) attempts also to capture some of the spirit of this approach by seeking to present it within a coherent framework, specifying some of the links so that the resulting model can at least be tested – and possibly refuted. The central hypothesis is that if an integrated set of HRM practices is applied with a view to achieving the normative goals of high commitment to the organization plus high quality and flexibility, then higher worker performance will result. The assumption is that this will have a positive impact on organizational performance. Unlike other approaches, this normative perspective argues that specific practices and specific HRM

goals will always be superior.

There are a number of problems with this view of HRM. One is that it focuses predominantly on the internal characteristics of HRM at the expense of broader strategic issues. In doing so, and in advocating a best set of practices while ignoring the variety of pressures and consequent business strategies, it is taking a considerable risk in implying 'one best way'. A second problem is that, while the goals of HRM can be reasonably well defined, the related list of HRM practices is far from clear (for an outline of the variables included in the various studies, see Dyer and Reeves (1995) and Becker and Gerhart (1996)) and awaits either a clear theoretical specification or a much stronger empirical base.

Each of the three approaches outlined has some sort of theoretical basis in either contingency/business strategy, systems theory or OB/motivation theory. Each implies rather different levels of analysis. Only the second and more particularly the third begin to specify the dimensions of HRM policy and practice in any way potentially helpful for measurement and even they are not really sufficiently precise. In summary, we still lack a coherent theoretical basis for classifying HRM policy and practice, a problem that becomes more apparent when we start to look at the empirical research.

3.1.2. Theory about performance

There is no general theory about performance *per se*. However, we have a number of approaches and models, often built on specific disciplinary perspectives, such as economics, psychology or production management, which help us to understand and classify aspects of performance. This is not an easy task. In the field of Organizational Behaviour, measurement of performance is often described as *the* criterion problem. We might be tempted to extend this to the study of HRM.

We can begin to make sense of performance by highlighting a number of distinctions. First, we can focus on issues concerning the content of performance. Second, we can consider the types of data. Third, we can consider linkages within a broad view of performance and thereby begin to explore causal links between HRM and performance.

3.1.2.1 The content of performance and outcomes

The issue of the nature of data overlaps with the question of what types of data are of interest. Who are the stakeholders of performance – and is this the same as outcomes? Arguably, performance is a company-dominated criterion while outcomes are potentially much broader. They may include environmental issues, job satisfaction, contribution to community activities and so on. There is a risk, in looking at organizationally determined performance criteria, that some of these issues are ignored.

It could be argued that, if the concern is narrowly for company performance, this does not matter. On the other hand, if the implicit theory of HRM is that results are achieved through effective utilization, as opposed to exploitation, of human resources, they might be very important. However, even this may not be enough, since we know from a mass of research that there is only a very weak link between performance and job satisfaction (Staw, 1986). Also, there is some indication that highly successful companies may not be those in which workers prefer to work (Levering *et al.*, 1984; for a fuller discussion, see Guest, 1992).

Building on the stakeholder analysis, one of the terms sometimes use in discussions about HRM is the concept of ‘the balanced scorecard’. This simply implies that it is not enough to concentrate on one view of performance at the expense of the others. As in the old socio-technical systems theory, it is necessary to optimize each dimension rather than maximizing one at the expense of the others. Typically, the items on the scorecard are those of importance to the financial, customer and employee constituencies. If we accept this, we need

multiple criteria of performance, a point highlighted in the descriptive models of HRM and implicit in the whole idea of taking human resource management seriously. It means we must be wary of emphasizing one of these interests at the expense of the other, particularly if we are using one-off rather than time series measures.

3.1.2.2. Measures of performance

There are essentially three types of performance data available (Locke and Latham, 1990); these are measures of output of goods and services, which may be quantitative (units produced, customers served) or qualitative (number of errors, customer complaints); measures of time, including lateness, absence, lost working time, failure to meet deadlines); and financial indicators, which include a large array of possibilities. These may be interrelated; thus absence reduces unit production levels which reduces profits.

Where 'hard' quantitative data are not available, we may wish to resort to measures of behaviour. Ideally, we observe people at work, noting whether they approach customers and offer help, or noting whether they observe safety procedures. Failing that, we can obtain reports either from an 'observer', such as the superior or a peer or subordinate, or from the person under study.

The same perspective can be adopted for performance data of interest to other stakeholders, for example those concerned with the environment. The measurement becomes more complex when applied to employees, since we will need to add subjective evaluations. The important point is that they should be collected systematically, perhaps through mechanisms such as attitude surveys.

Of course, an analytic framework for considering the range of performance data cannot hide biases and preferences – perhaps for financial measures – nor can it prevent subjective

interpretation and weighing of the information. The simple point is that as researchers we should perhaps be aware of the range of types of data that might be collected to indicate performance. There is also an implicit judgement about preferred priority, starting with the 'hard' measures, followed by behaviour, followed by reports or ratings. We may of course wish to balance the post-modernist view that all performance measures are social constructions, open to a variety of interpretations, against a recognition that broadening the definition of performance and providing evidence about any link between HRM and performance may be one of the more effective means of ensuring that policy makers take HR issues seriously.

3.1.2.3. Linkages in performance data

Data on their own tell us very little. We need some basis for comparison, either cross-sectional or longitudinal; we also need to understand the relationships between types of performance data. As already noted, absence may reduce production which may affect profits. Many linkages of this type can be made. If we move towards a behavioural model, then we might wish to link employee perceptions to their behaviour, to individual or group-level performance outcomes which affect unit performance and thus to company profits. To understand, as opposed to measuring the performance, we need to make these linkages. There may be an association between HRM practices and company profit, but, without some linkages, we will not know why; we have no theory. This implies that we need a range of types of performance measure at the individual, group, unit and company level to begin to establish these linkages. To date, HRM has been weak in this area.

3.1.3. Theory about the link between HRM and performance

Neither the strategic nor the descriptive model provide much insight into how HRM policy and practice translates into high performance. They sensibly view HRM as only part of the explanation for high performance and suggest that, when the various subsystems

including the HRM sub-system are aligned and supporting each other, superior performance is likely. The right people will be in the right place doing the right things. It is a managerial model of organizing, particularly in the strategic version. The descriptive models, because of their employee relations roots, give more weight to the active role of employees, but mainly in negotiating order.

In contrast, the normative approach has its roots firmly in organizational psychology and is built on lower-range, more specific behavioural theories. The assumption is that 'appropriate' HRM practices tap the motivation and commitment of employees. The factors that constitute 'appropriate' practices are derived from the specific theories of organizational commitment, job design, goal setting and so on. The key features of this approach are that HRM provides a coherent integration of these behavioural theories and that they spell out the linkages between practices and performance.

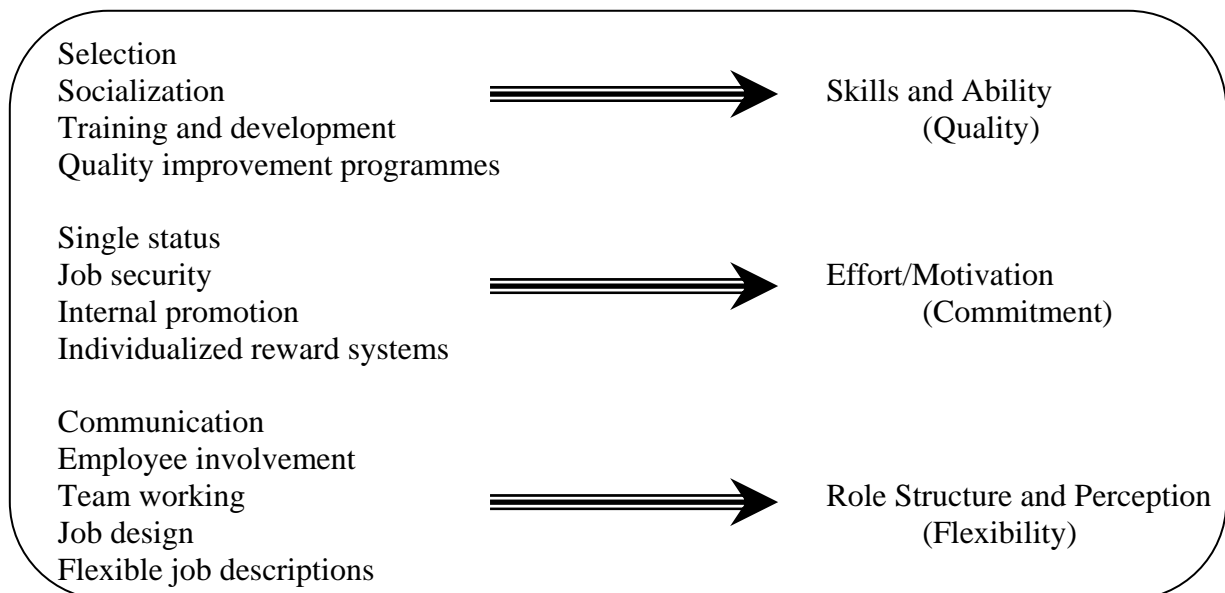
It is possible to develop theories of alignment, explaining a series of linkages to performance, both at the broader level of strategy and at the more specific level of HRM practices. Starting with the latter, the expectancy theory of motivation provides one possible basis for developing a more coherent rationale about the link between HRM practices and performance. An approach close to expectancy theory was adopted by MacDuffie (1995). As he puts it,

Innovative human resource practices are likely to contribute to improved economic Performance only when three conditions are met: when employees possess knowledge and skills that managers lack; when employees are motivated to apply this skill and knowledge through discretionary effort; and when the firm's business or production strategy can only be achieved when employees contribute such discretionary effort. I will argue that all three conditions must be met for HR practices to contribute to performance. (MacDuffie, 1995: 199)

Although expectancy theory is concerned primarily with motivation, it is also a theory about the link between motivation and performance. Specifically, it proposes that high performance, at the individual level, depends on high motivation plus possession of the

necessary skills and abilities and an appropriate role and understanding of that role. It is a short step to specify the HRM practices that encourage high skills and abilities, for example careful selection and high investment in training; high motivation, for example employee involvement and possibly performance-related pay; and an appropriate role structure and role perception, for example job design and extensive communication and feedback. These are illustrated in Figure 3.1. We therefore have a theory which links HRM practices to processes that facilitate high individual performance; it is, furthermore a theory which fits well with the individualistic orientation of the normative approaches to HRM.

Figure 3.1: *Linking HRM practices and HRM outcomes*



Source: Guest, D. E., (1997)

Before getting too enthusiastic about any theory linking HRM practices and performance, we should bear in mind that any analysis of influences on company profits or factory output or even absence levels quickly leads to the conclusion that factors other than HRM are involved. Therefore, we need to have a theory about when human resources matter more; for example, the human factor may be more important in the service sector. We also need a theory about how much of the variance can be explained by the human factor. Is any statistically

significant influence, for example where a regression reveals that HRM explains 2 per cent of the variance in performance, a good result? Or should we, as Becker and Gerhart (1996) suggest, be paying much more attention to size effects than to statistical significance? Can we, as Huselid (1995) has recently attempted, put a price on the benefits of good HRM? For this, we need a rather broader conceptual framework as well as an accepted basis on which to judge what constitutes an important result.

Moving on to a possible broader framework linking HRM and outcomes, the starting point should be the recognition, as noted above, that the distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization. Any theory of linkages should explicitly build on this. A model that illustrates the kind of linkages that might be explored, albeit using arbitrary categories for HRM strategy and HRM practices, is presented in Table 3.1 below. Its main value in the present context lies in highlighting the range of related outcomes that need to be considered in any model that seeks to understand the impact of the ‘human’ factor in human resource management.

Table 3.1 below acknowledges a role for external context and strategy but suggests, at its core, that HRM practices should be designed to lead to HRM outcomes of high employee commitment, high quality staff and highly flexible staff. High commitment will be assessed using standard measures and based on the definition popularized by Mowday, Porter and Steers (1982) of identification with the values of the organization, a desire to belong to the organization and a willingness to do things for the organization. High quality staff refers to the capabilities and to the knowledge and skills of staff. Flexibility refers to functional rather than numerical flexibility. The specific practices that help to achieve these outcomes were illustrated in Figure 3.1 above. According to the model, only when all three HRM outcomes are achieved

can we expect behaviour change and higher performance.

Given the framework in Table 3.1 below, it is essential to measure HRM outcomes to understand how HRM impacts on performance. As we move on through the remaining stages in the model, we would expect the impact of HRM to become progressively weaker as other factors intervene. The model in Table 3.1 separates changes in behaviour, performance and financial outcomes.

Table 3.1: Linking HRM and performance

<i>HRM strategy</i>	<i>HRM practices</i>	<i>HRM Outcomes</i>	<i>Behaviour outcomes</i>	<i>Performance outcomes</i>	<i>Financial outcomes</i>
	Selection		Effort/ Motivation	High:	Profits
Differentiation (Innovation)	Training	Commitment		Productivity Quality Innovation	
Focus (Quality)	Appraisal		Cooperation		
	Rewards	Quality		Low:	ROI
			Involvement	Absence	
Cost (Cost-reduction)	Job design			Labour turnover	
				Conflict	
	Involvement	Flexibility	Organizational citizenship	Customer complaints Labour turnover	
	Status and Security				

Source: Guest, D. E., (1997)

It is important to note that under the broad heading of performance there are further distinctions that can be made, for example between performance and effectiveness, which is a subjective assessment of performance and perhaps productivity; and between performance, which is concerned with output, and productivity, which is concerned with input-output ratios. Since effectiveness may be considered quite differently by the various stakeholders, it will be desirable where possible to include additional measures of effectiveness alongside the more

objective outcome measures.

3.1.4. The empirical evidence about HRM and performance: a conceptual framework

There are now a growing number of studies which make a serious attempt to link HRM and performance. (There are, of course, hundreds which examine particular aspects of HRM and performance.) They are not all looking at quite the same thing so they are cumulative in only a very general sense. One interesting attempt to identify the various possible approaches has been derived from the work by Venkatraman (1989) whose aim was to classify the various types of ‘fit’ in research on strategy. More recently, his approach has been adapted slightly by Sivasubramaniam and Kroeck (1995) to classify the various perspectives on HRM. The concept of ‘fit’ or ‘integration’ is central to many attempts to theorize about HRM so this seems an interesting way of trying to proceed.

Table 3.2: Forms of HRM fit

	<i>Criterion specific</i>	<i>Criterion free</i>
<i>Internal</i>	Fit to an ideal set of practices	Fit as gestalt Fit as ‘bundles’
<i>External</i>	Fit as strategic interaction	Fit as contingency

Source: Guest, D. E., (1997)

Essentially, they suggest that the various types of HRM fit (Table 3.1 above) can be ordered along two dimensions of Internal–External fit and Criterion specific or Criterion free. This provides four main possibilities, although one is further sub-divided.

Fit as strategic interaction seeks to link HR practices to the external context and reflects the standard strategic approach. A key point is that there is a choice about how to respond to and interact with the environment. Once that choice has been made, then HR strategy and practice must match it. The hypothesis is that those organizations with the appropriate response and the right match will report superior performance. The typical test of this is to examine the

link between the Miles and Snow strategic types and the HRM practices associated with each and relate this to some measure of performance. The level of theory specification implies that performance will be measured mainly through financial criteria.

Fit as contingency reflects the traditional contingency approach, suggesting that those organizations whose HR policy and practice is more responsive to external factors will report superior performance. These external factors may include the nature of the market, legislative changes or features of the specific sector. This approach tends to assume that a particular response will always be superior, but it does not specify the type of response or any class of responses, although there is no reason why this could not be done.

Fit as an ideal set of practices implies that there exists a set of ‘best HRM practices’ – Pfeffer’s (1994) list might be one example – and the concern is with how close organizations get to the ideal set of HR practices. The hypothesis is that those closer to the ideal type will report higher performance.

Fit as gestalt implies that the key to effective HRM lies in finding an appropriate combination of practices. In addition, it is assumed that the sum is greater than the parts. It may be the synergistic combination of all the practices or it may be the specific. ‘architecture’ or culture which binds them together. This is sometimes seen as the nonreplicable element which can provide organizations with an HR-based source of competitive advantage. One implication of this model is that the study of specific aspects of HRM such as pay or training may provide a distorted picture. Unless very careful controls are used to take account of all other HRM practices, it is possible that the results may overstate the influence of the specific practice by picking up the combined impact of the set of practices. In principle, this approach differs from the ideal type concept of fit in not specifying the dimensions of HRM practice; and from both

the ideal type and the ‘bundles’ approach described below in being multiplicative rather than additive. By implication, if one key aspect is missing, the gestalt may not exist.

Fit as ‘bundles’ implies the existence of distinctive patterns or configurations – what are sometimes called ‘bundles’ – of practices and the key is to determine which are the most effective. In principle there may be a number of possible combinations or configurations of practices which will lead to high performance; for example, some organizations may emphasize job security as the building block; others prefer training and development. The other practices fit around these. To test this, the key is to look not so much at the total number of HRM practices but to take those who adopt above a certain number, perhaps the median, as long as a distinctive core exists. Within each bundle some substitutability may exist; for example, statistically, there may be little to be gained by reporting both use of realistic job previews and psychometric tests in selection since both are equally indicative of careful selection. Although in principle this approach allows for equifinality, or some substitution, in practice certain clusters may consistently emerge, indicating the limited range of effective combinations.

Most reported studies of HRM and performance can be classified within one or other of these categories. However, we are some way from seeing all the possibilities tested. Indeed, Delery and Doty (1996) argue that there are really three main approaches – the strategic contingency approach, the best practice approach and the configurational approaches, representing external fit, internal fit and systems theory – and that these provide rich competing theoretical perspectives. Since there has been very little research on the pure contingency approach and, apart from some specific case studies, little exploration of the ‘gestalt’ perspective, the next section concentrates on these three main approaches.

3.1.5. The empirical studies of HRM and performance

A number of studies linking HRM and performance have been published; others have been presented in conference papers or exist in the form of working papers. They are mostly, but not exclusively, cross-sectional. The studies vary in quality, particularly with respect to their measurement of HRM policy and practice, although they share a tendency to display some statistical sophistication. While some range widely across industry, others concentrate on particular sectors.

(a) External fit: HRM as strategic integration

There is some support for this approach. Huselid (1995) has found that those organizations that link HRM practices to strategy report higher financial performance outcomes. Delery and Doty (1996) found modest support for a fit with the Miles and Snow typology. Youndt *et al.* (1996) found support for this type of fit in a sample of ninety-seven manufacturing plants, more particularly with respect to the fit between high performance HRM practices and a quality strategy. MacDuffie (1995), in contrast, explicitly rejects this hypothesis, claiming that in his international study of car-manufacturing plants he found no evidence that a 'fit' of appropriate HRM practices to mass production was able to compete with flexible production.

(b) Internal fit: HRM as an ideal set of practices

This is the most widely tested and the most strongly supported type of fit. Almost every study, including those already cited but also those reported by Huselid and his colleagues (Huselid, 1995; Huselid, Jackson and Schuler, 1995; Delaney and Huselid, 1996), by Arthur (1994), Ichniowski, Shaw and Prennushi (1994) and MacDuffie (1995) support this type of fit. Essentially, what they all show, either across industries or within a specific sector, is that the more of the high performance HRM practices that are used, the better the performance as indicated by productivity, labour turnover or financial indicators. Where different types of fit were compared, this was invariably the one that received strongest support. The main exception to this general pattern, to date, is the study by Youndt *et al.* (1996) which finds that a 'fit' between high performance HRM practices and a quality strategy provides the best results.

(c) Configurational fit: HRM as bundles

Huselid and Becker (1995), in a panel study, have provided a partial test of this by examining the impact of three separate factors which emerged from their factor analysis of a list of HRM practices. These they label selection and development, motivation and HR strategy, though the labels may not be very appropriate. Although support was strongest for the cumulative measure of 'fit as ideal type', there was significant independent support for each of these factors. In a study using subjective measures of organizational performance, Delaney and Huselid (1996) failed to find any positive impact for specific combinations of practices as opposed to the total number of HRM practices. However Delery and Doty (1996) found some support for the configurational approach in their study in the banking sector.

Guest and Hoque (1994) examined the impact of HRM comparing those above and below the median number of HRM practices in a sample of greenfield sites. When this was combined with a measure of the presence of an HRM strategy, it was found that establishments in this group reported superior HRM outcomes (commitment, employee quality, aspects of flexibility) and employee relations outcomes but not superior productivity or product quality. This highlights the need to take into account the range of outcomes and performance indicators. The study also hinted at a 'cluster' or 'bundle' reflecting deliberate low use of the proffered set of HRM practices. Those who did this as a deliberate strategy had poorer HRM and employment relations outcomes but reported no differences in productivity and product quality. This in turn raises a somewhat neglected issue of the costs of HRM practices.

Bringing these results together, there is empirical support for each of the three main approaches to HRM and performance but consistently stronger support for the internal fit model with its view that those organizations that use more high performance HRM practices report higher performance. The general approach represented by this stream of research is sufficiently encouraging to suggest that it is continued and improved. There is no doubt that it is attracting a lot of research interest in North America. It is to be hoped that it can do the same in

Europe. However, in taking it forward, we need to be aware of the shortcomings and in so doing return to the issue of theory.

3.1.6. Emerging issues for future research on HRM and performance

The first key issue is the lack of theory about the nature of HRM practices. As I have argued elsewhere (Guest, 1987), it is not the presence of selection or training but a distinctive approach to selection or training that matters. It is the use of high performance or high commitment HRM practices. There is little consensus on what these are and little interest to date in developing theory about what they might be. I would propose that we build on something like expectancy theory, in a way outlined above, to provide a sensible rationale for these practices. As MacDuffie (1995) indicates, expectancy theory, or some variation of it, can also point to a range of configurations depending on preferred rewards and perhaps indicating when performance-related pay can be considered a high performance practice. The alternative is to adopt a statistical approach and to see what emerges from factor analysis or some variation (for an example of this, see Wood and Albanese, 1995). In building a set of best practices, we should also take care to account for cultural differences, for example in practices associated with training, job security or trade unions. Finally, in collecting information about high performance HRM policy and practice, we need to be cautious about the validity assumptions underlying use of data collected at head office as a basis for company-wide statements about HR practices in what might be multi-plant sites.

A second concern is to improve our measures of performance. Indeed, performance may be the wrong term. It might be more sensible to use the term 'outcomes'. One argument might be that the unitarist philosophy underlining HRM implies that the employees share the concern of shareholders for profit. However, it would be unwise to accept this assumption. What we need are outcomes that reflect the concept of the balanced score card. The idea of balance,

like the concept of optimizing socio-technical systems, implies that compromises may sometimes be necessary. The plant-level studies reported by Arthur (1994), MacDuffie (1995) and Guest and Hoque (1994) measure productivity and quality, but those by Huselid (1995) and others using company-level measures overwhelmingly emphasize financial criteria. Despite the attractions of financial indicators for any attempt to convince senior managers of the impact of HRM, we need to use a greater range of outcome measures if only to understand how and why HRM has an impact on financial results.

The study by Guest and Hoque raises the question of contradictory criteria. Their establishments categorized as 'ugly', with a deliberate strategy of low uptake of high performance HRM practices, reported performance outcomes as good as any other category but had poorer HRM outcomes and employee relations outcomes. The firms got good results but were not attractive places in which to work. The other studies took no account of contradictory outcome criteria.

Only when we have made progress in measuring the independent and dependent variables can we begin to give full attention to the way in which they are linked. At present the studies report a promising association between HRM and outcomes, but we are not yet in a position to assert cause and effect. We need to develop theory which integrates aspects of strategy and strategic integration with something like expectancy theory to create specific hypotheses about linkages. Case study research can help to generate some insights which can be more extensively tested. So too can studies of specific practices or issues such as quality or commitment where theory is sometimes more specific. To establish linkages, we also need longitudinal research designs, ideally with some sort of interventions to alter HRM practices.

In summary, we need to improve our theory and empirical testing on all three fronts – the

nature of HRM, the nature of the outcomes and the nature of the linkages. As usual, we need to find the right combination of survey-based and case-study-based research. And we need to ensure that the research is not confined to the certain countries only such as USA. We can now say with increasing confidence that HRM works. But this is a skeletal finding and we need to put a lot of flesh on the bones. Let us now narrow our review to focus on issues relating to performance management per se. we begin this by reviewing the relevance of behavioural theory in the process of managing performance.

3.2. Relevance of behavioural theory on managing performance

Behavioural psychologists such as Skinner (1974) emphasise that behaviour is learnt from experience. They play down, even dismiss, the significance of internal psychological factors and instinct and are only interested in *the* external factors that directly influence behaviour. They believe that learning takes place mainly through the process of reinforcement. Three behavioural theories relevant for this study are social learning (Bandura, 1977), attribution (Davies, et al., 1993). and role modelling (Cacciabue, 1998). Social learning theory combines aspects of both behavioural and expectancy theories. It recognises the significance of the basic behavioural concept of reinforcement as a determinant of future behaviour but also emphasises the importance of internal psychological factors, especially expectancies about the value of goals and the individual's ability to reach them.

Attribution theory is concerned with how we explain our performance after we have invested considerable effort and motivation in a particular task (Four types of explanations may be used to account for either success or failure - these are ability, effort, task difficulty and luck. For example, if success or failure is explained in terms of effort, then high motivation may follow. If, on the other hand, failure to achieve is explained in terms of task difficulty or bad luck, the result may be a loss of motivation. Incorrect attributions may be the result of

inadequate feedback, and managers can do much to influence attributions and therefore motivation by feedback, communication, appraisal and guidance. This will affect subsequent motivation. Guthrie and English (1997) argue that the activity of the manager in this context can be described as *social information processing*. Essentially this entails communicating information to influence social perception of aspects of the work setting. It works best in highly ambiguous situations. For example, where there is little clear feedback from the job on performance, if someone tells you are doing well, if the source is credible and there is an absence of other information, you will be inclined to believe you are doing well and therefore persist in your behaviour.

Modelling behaviour on a 'role model' can motivate people A role model is someone whose approach to work and ability to getting things done produces a measure of inspiration and a desire to follow the example provided by the model who could be a manager or a colleague. A role model can be anyone. Role modelling can take place when inspirational leadership is provided (Lendrem, 1986). It is also one of the forces, which can operate within groups. There is, of course a negative side to role modelling. The behaviour of a manager or of fellow team members can produce de-motivation.

In addition to these three theories there are two other important concepts of behavioural modification and the ABC model of behaviour change. These are briefly discussed next.

3.2.1. Behavioural modification

Behavioural modification or organisational behaviour (OB) modification uses the behavioural principle 'operant conditioning' (i.e. influencing behaviour by its consequences). Five steps for behavioural modification have been defined by Mulhins (1996) as follows: *-identify the critical behaviour* - what people do or do not do which needs to be changed; *measure the frequency* - obtain hard evidence that a real problem exists; *carry out a functional analysis* - identify

the stimuli that precede the behaviour and the consequences in the shape of reward or punishment, which influence the behaviour; *develop and implement an intervention strategy* - this may involve the use of positive or negative reinforcement to influence behaviour (i.e. providing or withholding financial or non-financial rewards); *evaluate the effects of the intervention* - what improvements, if any, happened and if the interventions were unsuccessful, what needs to be done next?

3.2.2. The ABC Model of Behaviour Change

The ABC Model of behaviour change is composed of three elements - Antecedents, Behaviour, and Consequences. The Model advocates that, behaviour can be changed in two main ways - by what comes before it (*ex-ante*), and by what comes after it (*ex-post*) (Ayers, 1995). When you try to influence behaviour *before* it occurs, you are using antecedents. When you attempt to influence behaviour by doing something *after* it occurs, you are using consequences. The PM model is based on the systematic use of antecedents and consequences to improve the current behaviour - performance (Daniels, op. cit.). An *antecedent* prompts *behaviour*, which is followed by a *consequence*. An understanding of the way these elements interact allows managers to analyse performance problems, take corrective measures, and design work environments and management systems in which high performance will prevail and current behaviour modified.

3.3. The Conceptual Framework of Performance

The changes, which have taken place in the public sector domain, have created considerable interest in the concept of performance, and as a consequence the vocabulary of local government management has been filled with phrases beginning with that word performance. For example performance measures, performance indicators, performance review, performance appraisal, etc. etc. (Rogers 1990).

A distinction is often made between ‘measures’ as being precise and direct assessments of performance and ‘indicators’, as being more indirect assessments; i.e. they are only indicative of performance rather than ‘real performance’ (ibid., 1990). The term ‘review’ refers to control procedures or continuous monitoring of performance. The term ‘appraisal’ is used in relation to evaluations or measurement (stocktaking) of the *whole* performance process of individuals.

3.3.1. Definition of performance

The concept of performance is an old phenomenon in a working environment especially in the private sector. If you can’t define performance, you can’t measure or manage it (Armstrong and Baron, 1998). Daniels (op. cit.) defines the term performance as a process, which entails a number, or series, of behaviours, directed towards the achievement of some predetermined goal. The Oxford English dictionary defines performance as the "accomplishment, execution, carrying out, and working out of anything ordered or undertaken".

The Longman’s Dictionary of Contemporary English (new edition) defines performance as ‘... the action or manner of carrying out an activity, piece of work, etc.; the ability of a person to do something well; behaviour.’ This refers to outcomes/outputs (accomplishment), but also states that performance is about doing the work, as well as being about the results achieved. Armstrong and Murlis (1994) argue that "performance is a multi-dimensional construct, the measurement of which varies, depending on a variety of factors." They also state that it is important to determine whether the measurement objective is to assess performance outcomes or behaviour. That is one should distinguish between outcomes (results/output) and behaviour (the process).

There are different views on what performance is. This is a challenge to public sector managers because the overwhelming debate on performance today is whether it entails behaviour, results, or both. Performance is referred to as being about doing the work,

as well as being about the results achieved (Otley, 1999). It could be regarded as simply the record of outcomes achieved. On an individual basis, it is a record of the person's accomplishments (Armstrong and Baron, 1998). Performance can be regarded as behaviour - i.e. the way in which organisations, teams and individuals get work done (ibid).

Campbell (1990) believes that "performance is behaviour and should be distinguished from the outcomes because they can be contaminated by system factors." What is implied in the Campbell's argument is that performance measurement can only focus on an individual/group's final output, if and only if, system factors are controllable. That is, after a person has performed and produced a quality output, this product may deteriorate due to system factors that are outside the control of the performer.

Others argue that performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organisation, customer satisfaction, and economic contributions (Rogers, 1994; Fitzgerald and Moon, 1996). In contrast, both Edis (1995) and Kane (1996) argue that performance is something that the person leaves behind and that exists apart from the purpose. Bevan & Thomson (1991) are concerned that:

"Performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organisation, customer satisfaction, and economic contributions."

System failures, if any, though uncontrollable by the performer are still within the horizon of the organisation and should not be taken as a scapegoat. Hood (op. cit.) also supports this view that:

"Performance means both behaviours and results. Behaviours emanate from the performer and transformed performance from abstraction to action. Not just to the instruments for results, behaviours are also outcomes in their own right - the product of mental and physical efforts applied to tasks - and can be judged apart from results."

Performance is about *how* things are done as well as *what* is done. This is the so-called "mixed

model" of PM (IPM, 1992), which covers competency levels and achievements as well as objective setting and review.

3.3.2. Factors affecting performance

According to Armstrong and Baron (op. cit.) performance as defined above is affected by a number of factors, including the following: (a) personal factors - the individual's skill, confidence, motivation and commitment. (b) Leadership factors - the quality of encouragement, guidance and support provided by the managers and team leaders. (c) Team factors - the quality of support provided by colleagues. (d) System factors - the context of work and facilities (instruments of labour) provided by the organisation; and (e) Contextual (situational) factors - internal and external environmental pressures and changes. All these factors should be taken into account when measuring performance for pay decisions.

Research has proved that traditional approaches to performance appraisal attribute variations in performance to personal factors, when, in fact, they could actually be caused in part or entirely by situational or systems factors (Atkinson and McCrindell, 1997). Essentially, the assessment of individual performance must necessarily consider not only what individuals have done (the results), but also the circumstances in which they have had to perform (Deming, 1986). This assessment process should extend to the performance of the manager as a leader, because what the performer does is mainly a reflection of the manager's behaviour in terms of on-the-job training, coaching and guidance. Campbell, et al. (1993) argues that determinants of job performance are knowledge, skill and motivation factors. In his model of performance³, Campbell argues that the three variables have a functional relationship the impact of which determines or influences an individual's performance.

³ Adapted from Campbell, *et al.* (1993)

What is being hypothesised here is that there is a functional or causal relationship between an individual's level of performance and determinants of that performance. That is the direct cause of what people do (their performance) is some function of knowledge/skills, systems and employee motivation/attitudes. Therefore, any performance measurement process for PRP purpose must incorporate these variables to achieve objectivity and desired effectiveness. Whereas knowledge refers to facts and things (knowing *what* to do), skill refers to ability to perform and motivation is a function of whatever independent variables are stipulated by a person's favourite incentive theory.

3.3.3. Dimensions of Performance

Fitzgerald *et al* (1991) suggest a results-determinants performance measurement model of *six* dimensions. Two of the performance dimensions are the *results* of strategy consisting of *competitiveness* and *financial success* measures. The remaining four measures are *determinants* of the success of these strategies: *quality*, *flexibility*, *resource utilisation* and *innovation*. Similarly, Atkinson *et al* (1997) differentiate between primary objectives (i.e. *results*) and secondary objectives (i.e. *determinants*). They argue that primary objectives are externally oriented in the sense that they aim to achieve results that are the (long-term) mission of the organisation. The concern is mainly with measurable deliverables. In contrast, they say that secondary (operational) objectives are internally oriented and are concerned with how goods and services will be delivered.

In a similar argument, Kaplan and Norton's (1992, 1996) balanced scorecard recommends a performance measurement model of *four* dimensions of performance: *financial*, *customer satisfaction*, *internal business processes*, and *innovation or growth and learning*. Kaplan and Norton effectively consider the three dimensions of quality, flexibility and resource utilisation in Fitzgerald *et al*'s model to be the single dimension of internal business processes.

Classifying results as financial and customer; and determinants as internal business processes, innovation (growth) and learning can comprehend the similarity of the Kaplan and Norton's dimensions to those of others.

3.3.4. Performance measurement in local government

The literature on PM in government is starting to address issues of strategic linkages with operational performance and this is consistent with the literature on the dimensions of performance in general. However the literature on PM in local government is less strategic in focus. It is still largely grounded in operational concepts of efficiency, with a lower emphasis on the dimensions discussed above. Palmer's (1993) research provides evidence that organisations concentrate on measuring what is easily measurable and in local government this results in a bias towards measuring performance in terms of economy and efficiency, rather than effectiveness. Palmer concludes that the types of indicator most frequently used relate to costs, volume of service, utilisation rates, time targets and productivity – all measures of economy and efficiency, not effectiveness.

Increasingly there are many pressures on local government to plan for the future rather than adopt an incremental approach, which include the tender process and competition; central requirements for formal plans and increased 'customer' focus (Flynn and Talbot 1996). Flynn and Talbot further suggest that much of the pressure for improved performance in the short term may militate against strategic planning and strategic performance management. Budget constraints, cost reduction strategies, purchaser/provider splits and a focus on financial performance can fragment local government and prevent a strategic overview being adopted.

Whether or not a strategic focus is evident, performance measurement and review is important in local government. It became important in British local governments in the 1980s because of five interrelated factors: pressure from the central government and the Audit

Commission; greater public expectation and consumerism; compulsory competitive tendering; changing culture and attitudes among local authority managers; and loss of confidence (Ghobadian and Ashworth 1994). These factors are still prevalent in the local governments today where this research was carried out. The British government introduced wholesale changes in its system of local government in a very short space of time to refocus the emphasis on PM across the board. What implication if any does the PM approach have on organisational service quality management strategy? This is the concern of the next section.

3.3.5. Service Quality Management

Service quality management may be described as the process of minimising the *performance gap* between actual delivery and customer expectation. In order to improve the service quality, managers have to adopt “customer-oriented” techniques because service providers directly address user needs. This is the philosophy of performance management. In this regard, the PM model appeals to be most ideal. In a pragmatic approach, some scholars attempt to define service quality by identifying gaps between provider and consumer in their respective perceptions of service quality (Ballantine and Modell, 1998) or the performance measures they use (Fitzgerald & Moon, 1996). In every economic entity, however, top management must be the frontiers of identifying these '*performance gaps*' and providing the avenue, framework and empowerment for their therapy.

Performance and quality management is concerned with maximising the *value added* through the process of allocating and managing resources such that the initial ‘costs’ are exceeded by the subsequent ‘benefits’ derived from the deliverance process (Horton & Farnham, 1999). Management of quality has dominated public-service organisations in the 1990s. It was an idea, which germinated in the private sector, where intense market competition forces companies to look at the quality of their products, rather than price or design, as the key to market

success. Therefore, quality is defined as ‘conformance to requirements’ (Crosby, 1984), ‘fitness for purpose’ (Juran, 1989) and ‘meeting the requirements of the customer’ (Oakland, 1989). In the UK, the enthusiasm for quality was imported into the public services through the *Citizen’s Charter* (1991).

Management of quality reflects acceptance by public managers that the users of public services are their ‘customers’ and ‘clients’. The latter should be provided with services meeting their expectations and eliciting high levels of customer satisfaction. It is also considered that customers of the ‘business’ should be consulted about the services they want and whether their needs are being met. As a result approaches and techniques for managing quality, initially used in the private sector, such as BS5750, quality circles, Total Quality Management (TQM), and PM, have been widely introduced into the public services, to meet the needs for ‘continuous improvement’ and ‘customer care’ (Koch, 1992; Sanderson, 1992; Skelcher, 1992).

3.4. Performance management theory

Performance management (PM) is a novel concept in developing countries relative to developed economies. There are various versions of theoretical, practical descriptions and conceptions of PM. However, they all agree that PM is the process of optimal management and allocation of resources to achieve a common end in an organisation. Edis (1995) says that PM entails the managerial approach that links people and jobs to the strategy and objectives of the organisation. Slater, *et al.*, (1998) argue that PM is a ‘Value Adding’ process of organisational performance. It is defined within the context of private sector organisations as a systematic, data-oriented approach to managing people’s behaviours at work that relies on positive reinforcement as the major way of optimising performance (Daniels (op. cit.)).

Furthermore, you must develop a way to measure these behaviours and their results, and

determine the methods for changing or modifying them if necessary. The final steps are to use those methods, evaluate the results and give feedback to performers. Data-oriented means that an organisation must use performance data to evaluate the effectiveness of the strategies employed (secondary objectives) to achieve the primary objectives (Fitzgerald, *et al* 1991). The techniques and practices of PM are derived from the field study of *Applied Behaviour Analysis* - the term used to describe the scientific study of behaviour (Baer, *et al* 1968). In order to understand behaviour, applied behaviour analysts use the same scientific methods that physical sciences employ, i.e. precise definition of the behaviour under study, experimentation, and consistent replication of the experimental findings.

PM is also defined as an integrated set of planning and review procedures, which cascades down through the organisation to provide a link between each individual and the overall strategy of the organisation (Rogers, 1994). Similarly, the National Association of Head Teachers (NAHT, 1991) describes PM as a mix of managerial techniques through which individual jobholders: have greater clarity about what their organisation is trying to achieve; understand what is expected of them in their job; are entitled to regular feedback on how well they are doing; have continuous support from their managers; and have an opportunity to assess their overall performance achievements over a given period.

PM is a much broader concept than just appraisal. Performance appraisal (or evaluation or measurement) is an important element in performance management and it is part of an integrated approach, incorporating processes, attitudes and behaviours which together produce a coherent strategy for raising levels of individual performance achievements.

The LGMB (1993) and the Audit Commission (1995) in UK have adopted a broad definition of the PM model that encompasses the functions and processes that may be used to manage both organisational and individual performance. This kind of vision of PM concept creates

a more integrated approach to the management of performance and enhancing of accountability in local authorities in general.

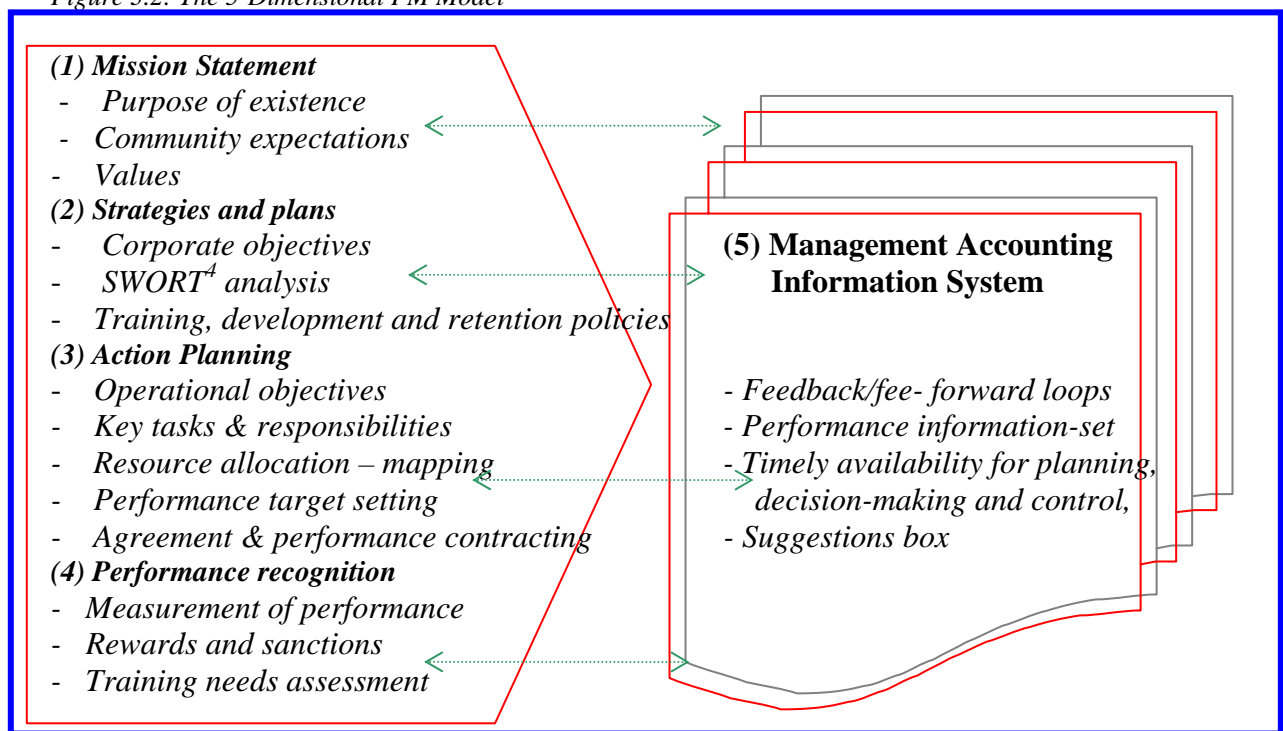
These two institutions, suggest that in order to improve both organisational and individual performance the following management functions are important: defining and setting organisational and individual aims and objectives; corporate planning; linking organisational strategy and service objectives to jobs and clients; identifying staff training and development needs; assessing the results through personal appraisal using relevant performance indicators; performance agreements or contracts; using the knowledge gained through training to modify performance attitudes; external and internal communication systems; and organisation development (OD) and performance review.

The term PM refers to any integrated, systematic approach to improving organisational performance to achieve corporate strategic aims and promote its mission and values (Edis, 1995). This implies that a PM system aims at improving the results of people's efforts by linking these to the organisation's corporate objectives. That is, PM is the means through which employees' performance can be improved by ensuring appropriate recognition and reward for their efforts, and by improving communication, learning and working arrangements as stipulated in the balanced scorecard model (Kloot and Martin, 1998).

Therefore, installing a PM system in an organisation entails creating and supporting the 'achievement culture' and thus ensures that effort is generated that results in performance which in turn results in real achievements. By 'achievement culture', it means a combination of performance orientation and professional excellence (Edis, *ibid*). The PM model (Mwita, *op. cit.*) stems from a clear understanding by every member of the organisation's mission and values, and what it wants to achieve.

This study will adopt the definition given by The Local Government Management Board as a systematic approach to managing effectively that links the policies, priorities, strategy and service objectives of the council to jobs and people (LGMB, 1993). This is because despite variations in the approach its most detailed form is based on: setting corporate, service, team and individual objectives; recognising and rewarding achievement; identifying training and development needs; and then using the knowledge gained to modify objectives and methods as necessary.

Figure 3.2: The 5-Dimensional PM Model



Source: Mwita, J. I. (2000)

Essentially, the main objective of a PM system is to create a ‘*performance and achievement*’ culture (based on the expectancy theory) in an organisation. Its prime purpose is to improve performance and motivate staff by concentrating on priority objectives, raising commitments and releasing potentials. It should, however, be integrated with other service management and

⁴ SWORT denotes organisational **Strategic Analysis** in terms of **Strengths**, **Weaknesses**, **Opportunities**, market **Risks** and **Threats** due to competition and so on.

HRM policies, such as service planning and training and development. In addition, employers have the option of relating PM to their reward strategies such as PRP.

The PM model is systematic in approach and managers can adopt the principles of Systems Analysis theory to link primary and secondary objectives of an organisation (Burch, 1992). Systems Analysis (SA) is described as the organized step-by-step study of detailed procedure for the collection, manipulation and evaluation of data about an organisation for the purpose not only of determining what must be done, but also of ascertaining the best way to improve the functioning of the system (Skidmore, 1994; Checkland, 1981; Checkland and Holwell, 1998). PM processes can provide for goal setting, feedback and reinforcement.

The success of any PM model depends on managers developing a strategy that promotes achievement with the right motivation 'or positive reinforcement' and performance-based information-set from and to the management accounting system as shown in Figure 3.2 above.

3.4.1. The stages in the PM model System

The PM model as depicted in Figure 3.1 above can be implemented by observing several stages. The stages constitute a job-related PM model as recommended by the NAHT (1991) in UK and are outlined in a form of steps below. In practice, they should not necessarily follow one another rigidly as shown here, but this is just a general operational framework of what needs to be done in the PM model system.

Step 1: Accountabilities describe the purpose for which a job exists. They do not change from year to year unless the job changes. They are generally about eight in number and should describe measurable results. By reference to the accountabilities, a jobholder can quickly assess whether all the responsibilities of a post are being met.

Step 2: Performance Measures are ways of measuring the achievement of key accountabilities or goals. They can be objective or subjective. The selection of appropriate methods of

performance measurement will help the job-holder and the appraiser assess effectiveness.

Step 3: Performance Standards are target levels of performance. Once a system to measure performance has been determined, a standard can be used either to set a goal or to determine a level of achievement.

Step 4: Goals should reflect the immediate priorities of a job. They indicate specific, measurable levels of achievement expected within a given period of time. They can be related to standards and can be used to influence how a job-holder meets particular accountabilities.

Step 5: Action Plans are the steps taken to fulfil accountabilities and defined goals. They help a job-holder to plan work and monitor its completion. Good action plans describe the assumptions, constraints and deadlines which affect each task.

Step 6: Progress Reviews should occur regularly during a performance period, which is usually one year, so that the job-holder and the appraiser may review progress and revise plans as necessary.

Step 7: Performance Appraisal is normally held at the end of the performance period. Job-holders are assessed to see if they have fulfilled their accountabilities and achieved their goals, using the agreed performance measures. The job-holder and the appraiser review accountabilities, test performance measures for rating and rewarding, identify development and training needs, work on career plans and agree goals for the next year. In evaluating PM systems in a LG perspective, several issues need to be noted.

3.4.2. The PM model approach to service delivery

(i) Accountabilities to focus on results

First, accountabilities should normally focus on results. Traditionally, job descriptions concentrate on the tasks, duties and actions expected of a job-holder, i.e. on what a person does.

In contrast, however, PM model is concerned with the results – with what a person achieves.

(ii) Principal accountabilities to define key responsibilities

Secondly, principal accountabilities should be capable of clearly defining the areas of responsibility of a job and the results, which a job-holder must produce if the purpose of

the job is to be fulfilled. In most well-structured jobs there are about eight principal or key accountabilities, each of which represents an activity within the job-holder's control (Campbell, 1996). Accountabilities are continuing. They do not change unless the job itself is reshaped. Results to be achieved in any given period of time are termed goals (ibid.).

(iii) Statements of accountabilities for precision

Thirdly, statements of accountabilities should be straightforward, authoritative short statements and to the point. A statement of accountability should guide the appraising manager by pinpointing specific key areas of concern. According to Cambridgeshire County Council (1992) such a statement should consist of a single sentence in the following form:

VERB	-----→	Approve.....
DIRECT OBJECT OF ACTION	→safety measures.....
RESULT	-----→to reduce the rate of accidents

In the example there is an assumption that safety measures will reduce the rate of accidents. In the performance appraisal meeting the appraiser will judge performance not only on the number of safety measures introduced and the outputs of the safety officer but also on the reduction in the rate of accidents, the effectiveness of the work, the results.

In the same example, the implied criterion of measurement is the current rate of accidents. The performance standard could be set at an agreed percentage figure. It is helpful to be as specific as possible when selecting a verb. It is recommended that the use of general terms such as 'manage' should be avoided but used only when more precise action verbs will not do (NAHT, op. cit.).

The accountabilities of supervisors and subordinates must be properly related to each other. A single accountability of a supervisor may give rise to several distinct accountabilities among subordinates. Care should be taken such that accountabilities for the same result are not needlessly carried elsewhere in the organisation.

(iv) The purpose of performance measures

Fourthly, considering performance measures in evaluating PM system should provide evidence of whether the intended result has been achieved and the extent to which the job-holder has produced the output. These two aspects should not be confused: part of the review process is to check the implicit assumption in the accountability that the action produces the desired result.

(v) Performance measures to be related to accountabilities

Fifthly, is about the relationship of performance measures to accountabilities. Performance measures will work only if they are directly related to adequate and clear accountability statements. If accountability statements conform to rules, they will focus on the end-results and suggest measurement criterion. Thus, the key question to be answered in forming a performance measure is *'how progress towards the end result may be determined?'*

Implementation of the PM model will not be effective unless specific performance plans, measurement and control techniques are laid down. In practice there are various approaches the application of each one of which depends on the nature of an organisation. However, following recent public sector reforms it is becoming hard to draw a line between a private or public sector organisation because the same managerial techniques which have been predominant in the private sector for decades, are becoming widespread the public sector. It is beyond the scope of this study to review all the planning and control techniques but for the purpose of this study three techniques of budgeting, economic value added (EVA) and balanced scorecard are reviewed in ss.3.6 below.

3.5. Implication of the PM model for organisational strategy

The linkage between organisational strategy and performance is the cornerstone of the Kaplan and Norton's balanced scorecard and has been enormously acknowledged in the literature (Atkinson and McCrindell, 1997; Atkinson *et al* (1997). When strategic concerns are impounded into a PM system, rather than the more limited concept of measurement,

they become the focus of performance in an organisation. In the government sector, given that objectives are often stated in non-financial terms, non-financial performance measures needed as conventional financial reporting will not fully capture performance (Guthrie and English 1997). Performance measurement is essential for choosing between alternative strategies and prioritising activities.

Kloot and Martin (1998) examined how PM systems incorporating strategic and operational issues are developed and integrated across LG in the State of Victoria, Australia. The aim of their research was to understand how in the LG environment, performance measurement systems are linked in an integrated holistic way to strategic choices of councils such that their overall operations efficiency and effectiveness are improved. Their argument is that when this occurs across the organisation a performance management system is in place. This study has extended this argument further by examining not only the capacity of local authorities to establish this linkage, but also the role of motivation in managing performance with particular interest in the rewards systems which are related to performance.

3.5.1. Linking corporate plans with community needs

Local government corporate plans are strongly community focussed, with the strategic imperative being related to satisfying community needs. Community and customer relations are areas, which are generally well handled by local government, a common trend found across public sector services (Ballantine *et al op. cit.*). Community satisfaction is an area over which the British Local Government (BLG) mandates performance measurement. Each council surveys community perceptions of overall leadership, image, customer service and service delivery performance by, and reinforces accountability to the government.

Councils need to manage how communities perceive their performance in two ways. First, they need to manage how the *general community* perceives their performance. Second, they

need to manage how those who use specific council services as *customers* perceive the council's performance. Formal performance measurement is evident as councils undertake extensive market research to gauge community perceptions of their performance across both these primary and secondary dimensions. Surveys and focus groups are conducted by independent market research organisations on an annual basis. In-house groups may conduct other market research much more frequently, for example monthly client surveys to judge the quality of services provision.

3.5.2. The PM model and measurement of performance

The five areas the PM model presented in Table 5.1 in ss.5.4.1 of chapter five constitute the key issues of concern for this study. These issues are not novel in the study of HRM literature and are linked to the five aspects of the PM model presented in Figure 3.1 above. Studies addressing aspects of them have been part of the performance planning, measurement and control systems and wider management literature for many years (Kaplan and Norton, op. cit.).

The integration of the five areas provides a description of the overall PM framework of an organisation, which is relatively novel. It is argued that the five areas are heavily interconnected and procedures introduced to address one question may well impact upon the other areas identified. The PM model is not intended to provide a normative or prescriptive framework, but rather to provide a more comprehensive descriptive framework within which the features of an overall organisational performance planning and control system can be assessed and evaluated.

3.6. Performance Measurement Systems

In examining the development and use of performance measurement in British local government, Ghobadian and Ashworth (1994) suggest characteristics of performance

measurement systems that are consistent with the principles underlying the balanced approach to performance management set out in Table 3.3 below. We believe that an integrated, holistic performance measurement system that did all of these things would, in fact, be a performance management system.

Performance-measurement information is influenced by who constructs the indicators and who does the measuring (Lawler and Rhode (1976) quoted in Palmer, 1993). Palmer also notes that ‘utilisation is likely to be highest when decision-makers are involved in these activities’ (p.33).

Table 3.3: Performance measurement systems

<i>Multiple measures</i> <i>Ongoing and evolving process</i>	<i>Identify trade-offs between various dimensions of performance</i>
<i>Capture both efficiency and effectiveness dimensions of performance</i> <i>Qualitative and quantitative measures</i> <i>Link measures to corporate objectives</i>	<i>Enable management to plan and aid decision making designed to meet requirements of different organisational levels</i>
<i>Avoid measures becoming ends in themselves</i>	<i>Measures cannot be manipulated by managers being measured</i>

Source: Ghobadian and Ashworth (1994)

In the British experience approximately half of the respondents indicated that the introduction of performance measurement was not part of a coherent strategy (Palmer, *ibid.*, p. 33). This is clear evidence that there is no overarching, holistic performance management approach in a significant proportion of UK local government. The preoccupation is with measurement for purposes of compliance and control. This is clearly an important point when we consider the myriad of issues people in Australian local government experience as this industry faces significant, on-going change.

Recent Australian research confirms that prior to the 1990's reforms performance

measurement, let alone performance management, was not a high priority in Victorian local government (Kloot *et al* 1997). Managerialist changes instituted by the State Government, consistent with managerialist changes in other Australian government sectors, New Zealand, the UK, Canada and the USA (Dixon *et al*, op. cit.) now demand a focus on performance measurement. The most obvious managerialist change is the introduction of compulsory competitive tendering which requires performance information for the purposes of contract specification and management (Palmer, op. cit.). The primary focus in the UK was, as Palmer and Ghobadian and Ashworth (1994) report, on financial information. This is also the case in Australia.

Another major driver for the establishment of performance information systems in BLG was the legislative requirement for councils to prepare annual performance management plans containing measures and indicators, designed to increase accountability. Over the last few years councils have refined and improved the quality of this process as they provide feedback to stakeholders: councillors, council employees, the community and the Government.

The adoption of managerialist private sector practices by British local government suggests that there should be an increased focus on performance management. Strategic planning, business re-engineering, customer service, quality assurance, performance management, risk management and accrual accounting under-pin managerialism (Dixon *et al* op. cit.). The first five of these practices are central to the research reported in this study, linking as they do the concepts of Fitzgerald *et al* (1991), Kaplan and Norton (1996) and Atkinson *et al* (1997).

3.6.1. Performance measurement and reward policy themes

Performance-related pay is a logical component of reforms aimed at more efficient and more effective, delivery of public services and is consistent with the rationalist economic philosophy that began to influence policy makers in OECD countries in the 1980s. The

rationale for the shift toward economic policies of smaller government, privatisation and low inflation was outlined in an OECD report dealing with structural adjustment and economic performance (1987).

These policies were, in a general sense, a response to the economic malaise that struck many OECD countries in the 1970s and early 1980s, the symptoms of which were low growth, low productivity and weak investment in conjunction with high unemployment and inflation. Flynn (1990) has identified several themes in the policies and reform agendas of the economic rationalists.

Some of these themes, but not all of them, are consistent with the measurement and rewarding of performance in the public sector. These include, among others, use of market mechanisms to allocate resources; competition amongst service providers; public choice as policy theme; transaction cost theory as policy theme; and strategic performance measurement.

3.7. Performance Planning, Measurement and Control Techniques

Current strategic management literature suggests that there should be a strong linkage between strategic plans and performance measures. Kaplan and Norton's (1992) balanced scorecard and Fitzgerald et al's (1991) results and determinants framework attempt to explain this linkage. The PM model framework flags up some vital issues for studying and revising the practice of performance pay incentive schemes as well. These issues will be considered in more depth by looking at three popular techniques (one old and two new) that have been developed to improve organizational PM planning, measurement and control systems.

The techniques are budgeting, Economic Value Added [EVATM]⁵, and the Balanced Scorecard Approach (BSA). The significance of these techniques is that they provide the impetus for the

linkage between primary and secondary objectives, which is a vital ingredient for PM planning, control, and decision-making process. Although these techniques are sometimes seen as competing approaches (Otley, 1999), for the purpose of this study they will be regarded as complementary. The two new techniques have been explicitly devised to allow a more structured approach to performance measurement and to avoid some of the problems associated with some traditional performance planning and control methods, such as budgeting (ibid.).

Ideally, the framework should now be applied in practice to examine the overall performance planning and control systems of an organisation (Fitzgerald and Moon, 1996). The aim is to illustrate that the questions posed, give insight into the techniques discussed, and raise a variety of interesting research questions that can be explored. The following sections will briefly discuss each of these three techniques.

3.7.1. Budgeting

Budgeting has traditionally been a central plank of most organisations' financial planning and control mechanisms, as it is one of the few techniques capable of integrating the whole range of organisational activity into a single coherent summary (Shillinglaw, 1994; Jones, 1996). Performance is defined essentially as profitability; in a profit centre. The overall measure of performance combines an output measure (revenue) with an input measure (cost) and the budgeting process seeks to keep the two elements in balance (Drury, 1998). In a public sector environment, cost centres are more problematic as results can no longer be measured in financial terms, and thus cannot be directly compared with costs. The budgeting process tends to assume a given level of output or sales and attempts to determine an appropriate level of spending (Otley, op. cit.).

⁵ EVA™ is a trademark of the Stern Stewart Corporation. - 101 -

Budgeting and the PM Model

The budgeting technique addresses the five aspects of the PM model as follows:

(i) Objectives

In order to develop a budget there is a need for an underlying performance plan by which the organisation's *objectives* are expected to be achieved and which serves as the basis for the cost structure underlying the budget.⁶

(ii) Target setting

Target setting has long been seen as an important part of budgeting, with both the process (e.g. participation) and the outcome (e.g. target difficulty) being the subject of behavioural accounting research (Otley, op. cit.).

(iii) Performance evaluation

Clearly much of the influence of *performance evaluation* is driven by the desire of managers to please their superiors and thus gain some form of reward (financial or otherwise).

(iv) Rewarding performance

Although *reward structures and incentive schemes* have received some attention (particularly in the agency literature), the topic has been more implicit than explicit in the budgeting literature.⁷

(v) Performance information system

Finally, feedback loops are assumed to exist because of the regular reporting of (typically monthly) accounting variances and the consequences that these engender. The virtue of the budgetary planning and control process is that it provides an encompassing framework by means of which all aspects of an organization's activity are encapsulated into a single set of financial planning statements against which actual outcomes can be monitored. However, the

⁶ However, it has to be recognized that the phenomenon of the 'planless budget' also occurs, with budget numbers merely being extrapolated from past experience.

downside of the narrowness of the budgetary process has been likened to driving a motorcar solely by looking through the rear view mirror that provides only an imperfect reflection of the intended destination (Otley, op. cit.).

3.7.2. Economic Value Added (EVA™)

EVA™ has been developed by the Stern Stewart Corporation as an overall measure of financial performance that is intended to focus managers' minds on the maximisation of shareholders' value.⁸ The technique is a purely financial performance measure but can be used to demonstrate how a particular scheme of performance measurement needs to address each of the areas mentioned, though with a narrow scope (Otley, 1999). It is argued that the EVA™ technique can avoid some of the performance measurement problems currently experienced with other financial performance measures (Otley, ibid.).

EVA™ and the PM model

EVA™ as a financial measurement technique is used to address the five dimensions of the PM model as follows:

(i) Objectives

The first question in the EVA™ framework for analysis is thus answered by the assertion that the single objective of such a stock market quoted organization is to deliver as much value as possible to the shareholders. The surrogate measure for this value is defined in historic accounting terms in a way that minimizes the dysfunctional consequences inherent in the use of any such measure. However, it needs to be recognized that the measure does not anticipate the earning of future income, despite the existence of predictions based on stock market valuations,

⁷ The literature on performance evaluation and style of budget use is also relevant, although the connection with rewards is still usually implicit or expressed in terms of obtaining a good evaluation from a superior [see Briers and Hirst (1990) for a useful overview].

⁸ Stakeholders other than shareholders are not explicitly considered in the EVA™ framework. At best, other stakeholders are seen in an instrumental manner as parties with whom contracts are entered into, as the means

but it remains an historic income measure. Stern Stewart would argue the EVA™; is the best surrogate for or predictor of future share price performance, but this remains an open empirical question.

(ii) Target setting

The second question about target setting is largely unanswered. The means by which such outcomes are to be attained are not specified. The most charitable interpretation of this is that a much decentralised organisation is envisaged which allows subordinate managers a great deal of discretion over their operating activities. In such circumstances, it could be argued that it is inappropriate to constrain subordinates by insisting they operate to plan; rather, they have to deliver value by whatever means they can invent.

With regard to *target setting*, at a glance one would imagine that this is a simple issue, because the implicit standard against which residual income or EVA™ is assessed is zero.⁹ However, this only holds true where valuations are conducted on a net present value (NPV) basis. Because EVA™ takes a more historic view and only uses accounting rather than economic valuations, there can be an ‘inheritance effect’ whereby managers can benefit from or be penalized by the past history of the organisation.

For example, in the ‘rust bowl’ industries, the depreciated historic cost of assets may exceed their market valuation; here, EVA™ is expected to be negative and a target of zero would be over-ambitious. Thus, the EVA™ approach pays particular attention to the setting of appropriate targets. The objective appears to be the traditional one of attempting to ensure that

by which the objective of increasing shareholder value is attained. See, for example, Otley and Emmanuel (1976).

⁹ There are some other sufficient conditions for such a relationship to hold, discussed in O’Hanlon and Peasnell (1998).

targets are 'tip-toe', 'stretch' or challenging, whilst still being regarded as realistic by those who will be required to attain them.

(iii) Reward structures

Reward structures are the third major focus of the EVA™ approach. Not only is this a by-product of the Stern Stewart history (it was originally a compensation consultant), but reflects an awareness of the imperfect nature of the EVA™ measure, even after all the recommended adjustments have been made. The central suggestion is that, although bonus calculations should be based on the attainment of target levels of EVA™, such a bonus should not be paid immediately in cash, but should be subject to *smoothing* over a 3-year period and payable in full only if performance is maintained into the future. The reason for using this method is explicitly motivational and designed to avoid potentially dysfunctional short-term behaviour. Stern Stewart thus recognise the potential dysfunctional effects of short-term performance targets coupled too closely to financial rewards, and have developed a scheme to reduce the worst of such effects.

(iv) Forward planning

Finally, Stern Stewart also briefly discusses the process by which future targets should be adjusted in the light of actual results. Here again they are at pains to avoid the circularity that can result from a strong management team being expected to perform well and thus inflating stock market expectations. If this were to be allowed to inflate EVA™ targets, a good management team would be penalised purely because they were expected to deliver shareholder value. A compromise is therefore proposed which is again based on an historic approach, perhaps benchmarked against what is being achieved elsewhere (Kloot and Martin, op. cit.).

The EVA™ literature is therefore a good example of the performance management framework

being used in practice, albeit to just a single over-arching measure of financial performance. Each of the five major questions is addressed, although the second question is touched upon only implicitly. By concentrating on a single over-arching financial performance measure, the EVA™ approach is able to disregard questions of strategy, although only at the cost of spending a great deal of effort on discussing the capitalisation of items, such as R&D expenditure. That is, strategies that require current spending to produce expected future benefits must be ‘properly’ accounted for.

In summary, the approach has been well worked through, and represents one of the most coherent performance management systems currently on offer. Nevertheless, even under its own assumptions concerning organisational objectives, it is clearly not as comprehensive as it claims, and is particularly weak in measuring and monitoring the means by which managers have adopted to achieve their overall objectives.

3.7.3. The balanced scorecard approach (BSA)

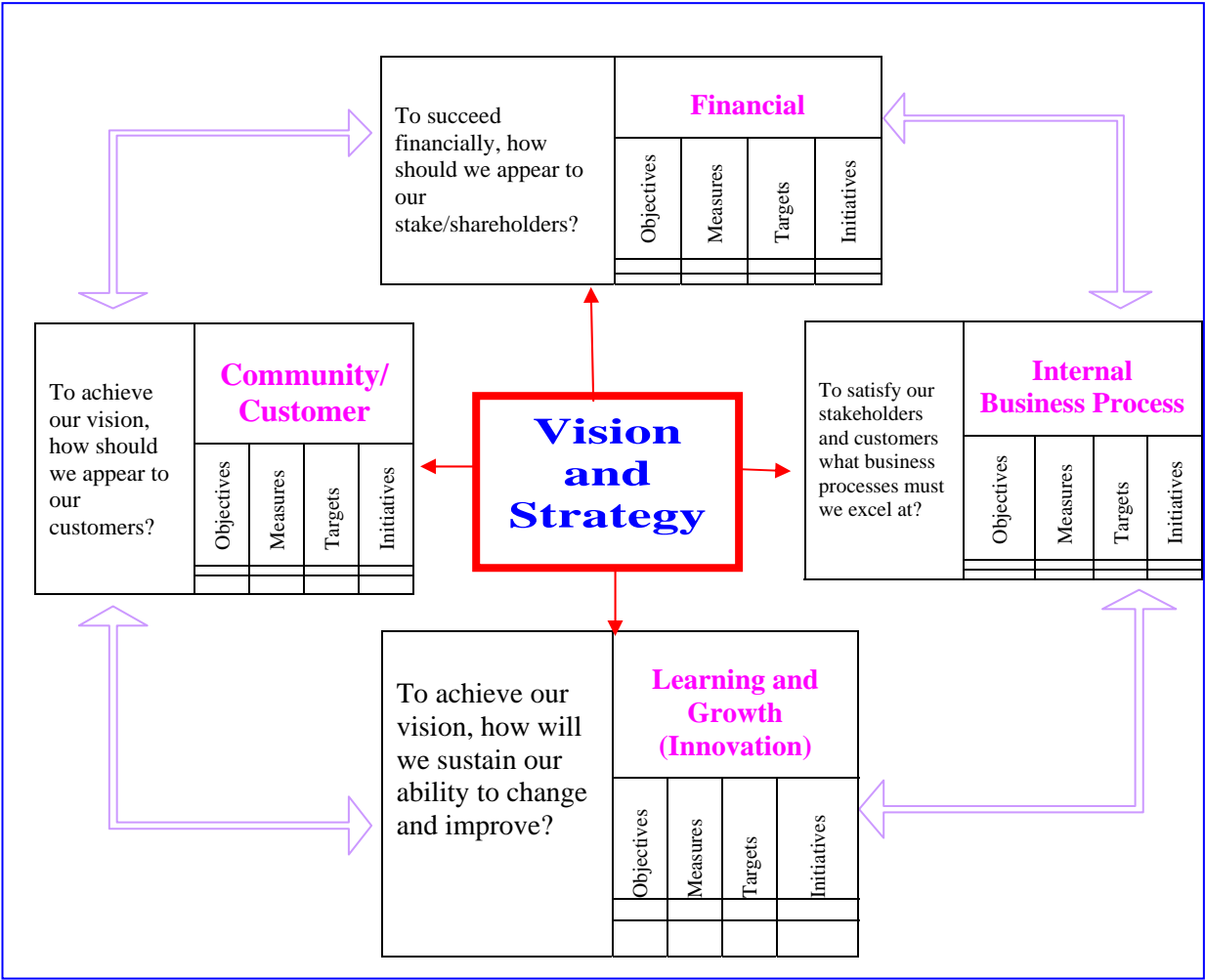
Finally, the Balanced Scorecard Approach (BSA) is a multi-dimensional approach to PM planning, control and decision-making process that is linked specifically to organisational strategy.¹⁰ The technique was developed by Kaplan and Norton at the Harvard Business School since the early 1990s (op. cit). The BSA is used to indicate a technique which has addressed one or two questions in some detail, but which has also neglected other important questions.

The Balanced Scorecard (BS) shown in Figure 3.3 below is potentially a powerful tool by which senior managers can be encouraged to address the fundamental issue of effectively deploying an organization’s strategic intent (Kaplan and Norton, 1992, 1996). The BS literature also indicates that it is as much the process of establishing a scorecard that yields benefit as the

¹⁰ Compare Kaplan and Norton (1992) and Kaplan and Norton (1996) to see how the approach has been developed during that period.

resultant measurement schema. Kloot and Martin (op. cit.) argue that in practice, PMS require the four dimensions of the balanced scorecard i.e. financial, community/customer, internal business processes; and growth/innovation and learning.

Figure 3.3: *The Balanced Scorecard: a framework to translate strategy into actions*



Source: Kaplan, R.S. and Norton, D.P. (1996)

The balanced scorecard is designed to be at the centre of an organization’s PM planning and control mechanisms to effectively deploy strategy, to link operational practices with strategic intent, and facilitate objective performance measurement. However, it cannot stand-alone and its links with more traditional planning and control systems need to be reviewed. For example, in Kaplan and Norton (1996, p. 197) there is a diagram with the balanced scorecard

placed at the centre, illustrating the benefits that can flow from its adoption.

The Balanced Scorecard is thus a potentially powerful tool by which senior managers can be encouraged to address the fundamental issue of effectively deploying an organisation's strategic intent. It focuses on establishing links between strategic objectives and performance measures; it also pays some attention to measuring the achievement of the components of the strategic plan the organisation has espoused (i.e. the means that it is believed will lead to the desired ends). However, the literature is remarkably silent on these points. Procedures for *mapping means-end relationships* are not explicated. In addition and surprisingly, *target-setting* is not mentioned despite its central role; the links with *reward structures* are neglected; and the establishment of *information systems and feedback loops* are taken for granted. All of these neglected areas provide opportunities for further research.

This analysis is intended to give an indication of how the proposed PM model framework can be used to analyse planning and control techniques that are being used in many organizations. It can be seen that no single technique has developed answers to all five of the questions posed, although the application of such techniques requires attention to be paid to them all.

3.7.4. Comparative Analysis of the three techniques

It may therefore be beneficial for both practitioners and researchers to consider all of the aspects identified in evaluating and refining the above techniques. However, there is a significant shortcoming in analysing single techniques in this way. It may be that, although a particular technique does not address all of the issues identified, such matters are dealt with by a combination of a variety of techniques in an overall organizational planning and control system. A more holistic approach is clearly appropriate, with the unit of analysis being the organization. Here an attempt should be made to analyse the totality of the planning and control systems being utilised against the issues defined above.

It is important to be clear at this point that the purpose of the framework outlined is not intended to serve as a prescription for ‘best practice’ on the assumption that explicit procedures for developing a performance measurement and management system which emphasise the establishment of comprehensive and quantitative measures of performance, explicitly linked to financial rewards, is the universally best way forward. At the very least, there is insufficient evidence available to substantiate such a position, and the distinct possibility that in many circumstances such an approach may be counter-productive.

An overall summary is given in Table 3.4 below.

Table 3.4: Comparison of the three planning and control techniques analysed using the PM model framework

The PM Model	Budgetary Control	EVA™	Balanced scorecard
Objectives	Financial objectives: - profit; - cash flow; and - ROCE	Single financial objective.	Multiple objectives based on strategy.
Strategies and plans	Means/end relationships not formally considered, although budget is based on a plan of action.	Delegated to responsible managers. May be considered when setting targets.	Implicit in selecting some performance measures; no formal procedures suggested.
Targets	Best estimates for financial planning; literature on target-setting gives some guidelines for control.	Some guidelines given with respect to ‘inheritance effect’	Not considered, despite being central to ‘balance’.
Rewards	Not addressed, despite many rewards now being made contingent upon budget achievement	Appropriate incentive schemes a central part of the methodology.	Not addressed.
Feedback	Short-term feedback of budget variances. Incremental budgeting from year to year.	Some discussion of longer-term impact.	Reporting of performance assumed, but no explicit guidance given.

Source: Author’s own compilation based on the three techniques examined above.

However, there is a dearth of information available concerning what is current practice in major business, and what is the impact of different configurations of planning and control mechanisms. Rather, the intention has been to develop a framework, which can provide a structure for examining extant practice in a more holistic way than has previously been the case.

3.8. The PM model as a Strategic HRM tool

The PM model as discussed in this chapter adopts a strategic approach to managing performance in an organisation. This means that we need to review the conceptual framework of strategic HRM model so that the link between the two can be clearly shown. Managing strategically is increasingly a way of life for organisations faced with the tumultuous economic, political and cultural forces of the NPM era. In order to be successful organisations have to deal with and respond to primary questions regarding the formulation and implementation of strategy in their organisations.

The area that is getting much attention in recent years is HRM because it has been the most neglected strategic area and also it will be central to the implementing the needed cultural and political changes in organisations (Fombrun, Tichy, and Devanna, 1994). A process for changing the HRM of an organisation in the future will need specific strategic frameworks for dealing with the challenges of change (Storey, J. (ed) (1995)). The PM model as a tool is one of such frameworks which needs to be integrated within the organisational context of strategic HRM model.

These frameworks enable organisations' strategic stance externally translate into the management systems articulated to reinforce their organisational goals. The PM model as a strategic HRM tool emphasises exactly that. It begins with the mission statement of the organisation which is the long-term vision, then translates this into corporate objectives. These are derived from both within and outside the organisation through consultation of all stakeholders – process and environmental. Correspondingly, Fombrun, et al. (1994:34) argue that strategic management involves consideration of the following:

- (i) **Mission and Strategy:** An organisation needs a reason for being (mission), and a sense of how to display materials, information, and people to carry it out (strategy).
- (ii) **Formal Structure:** People and tasks are organised to implement the

organisation's strategy. The organisation's formal structure includes its systems of financial accounting and information dissemination.

- (iii) **Human Resource Systems:** People are recruited and developed to do jobs defined by the organisation's formal structure; their performance must be monitored and rewards allocated to maintain productivity.

At this junction the link between the PM model and strategic HRM model is clearly established with a common view of achieving primary objectives of the organisation.

3.9. Conclusion

There is a growing body of evidence supporting an association between what are termed high performance or high commitment human resource management (HRM) practices and various measures of organizational performance. However, it is not clear why this association exists. This chapter has argued that to provide a convincing explanation of this association we need to improve our theoretical and analytic frameworks in three key areas. These are the nature of HRM, and especially the rationale for the specific lists of HR practices; the nature of organizational performance; and the linkage between HRM and performance.

The term performance as defined in this chapter leads us to the conclusion that, when one is managing the performance of teams and individuals, not only inputs (behaviour) and outputs (results) should be considered, but also other factors that influence that performance are equally important. Conceivably, behaviours, results and value-added are inseparable and interdependent variables. They are all important dimensions of a PM system. It is important to determine whether the measurement objective is to assess performance outcomes or behaviour. Therefore, an organisation should distinguish between outcomes (results/output), behaviour (the process) and appropriate performance measurement devices. This thesis adopts a rather comprehensive view that performance is achieved if it is defined as embracing three interrelated variables: behaviours (processes), outputs and outcomes (value added or impact).

This chapter has also provided a comprehensive review of a 5-D PM framework within which the delivery of quality services may be improved. In particular the chapter argues that PM model provides an important integrating framework, both academically and practically to focus on optimisation of customer service level. Secondly, there is a need to link PM systems design with issues of policy, strategy, operations, assessments and information systems. Thirdly, the model reflects and correlates the aims of an organization and the plans that have been developed to achieve them. This form of PM framework when integrated with appropriate performance measurement models such as EVA and balanced scorecard can be the basis for generating well focussed research questions in a systematic way as applied in this research.

Chapter Four

EMPIRICAL STUDIES ON PRP INCENTIVE SCHEMES

4.0. Introduction

The preceding two chapters have provided both the literature survey of various alternative theories and conceptual framework for motivation and PM. This chapter is concerned with incentive schemes which attempt to link pay to performance. Several scholars for example Kloot and Martin (1998); Hughes (op. cit); and Kelly and Monks (op. cit) have questioned the linkage between public sector managers' performance and pay. The chapter attempts to responds to this question by examining various relevant empirical studies that have addressed the practice of performance-pay policies. The chapter is organised into three main parts. It begins by reviewing the background and conceptual framework of performance-pay incentive schemes; then it reviews the empirical studies about these incentive schemes; and concludes by recapping key research issues for this study.

4.1. The Background of Performance-pay schemes

Performance pay schemes are part of a wider set of reforms to the structures and managerial processes of PSOs that have been implemented in many OECD countries during the 1980s to date. These reforms have been described as the “new managerialism” because of their frequent adoption of techniques from the private sector and the elevation of managerial skills, relative to policy and advisory skills (Flynn, 1990). The new managerialism has involved a comprehensive process of change to public sector organisations, with an emphasis on decentralised managerial and financial control and the fostering of what is described as a “performance culture” that places greater emphasis on accountability and value for money or Best Value.

The idea that pay should be related to performance is a dominant theme in both economic and psychological writings on compensation and rewards system management (CRSM). Baker, et al., (1990:594) note that:

“... economic models of compensation generally assume that higher performance requires greater effort ... In order to provide incentives, these models predict the existence of reward systems that structure compensation so that a worker’s expected ability increases with increased productivity.”

Matching compensation to the productivity of individual workers, particularly managers, is considered necessary as an incentive for effort and to attract and retain competent managers. In the HRM literature, arguments for the adoption of performance pay schemes are usually based on AGREE motivational theories. The incentive effects of PRP schemes, it is argued, lead to higher levels of effort that, in turn, lead to higher levels of performance (Flynn, op. cit.).

4.1.1. Requirements and assumptions of performance-pay schemes

The implication of AGREE theories is that there are three major requirements for effective performance-pay schemes. First, rewards must be of *sufficient size* so that, in economic and expectancy theory terms, bonuses or merit increments are of sufficient value to recipients to be motivating. Secondly, that the distribution of rewards must be equitably made so that there is a significant positive relationship between performance and pay awards, and that this relationship is understood by potential recipients of awards. Thirdly, equal rewards for staff that perform at the same level must be made, so that rewards are perceived to be as equitable as possible.

This simple and compelling logic for linking pay to performance as a means of motivation, performance enhancement and accountability reinforcement is based on several assumptions (Lawler, 1990; Locke and Ladham, *ibid*). The first is that organisations can accurately measure individual outputs. Secondly, that individual outputs contribute to organisational performance i.e. achieve predetermined organisational goals and objectives of which individuals will have (in some way) participated in setting. Thirdly, that individual outputs and the resulting

organisational performance are a synergy effect of individual effort. Fourthly, that rewards, including pay, can be administered in a way that captures their expected incentive value for the potential recipients.

In fact, these assumptions are difficult to satisfy in practice, particularly in relation to managerial roles in PSOs. It is very difficult to objectively measure the marginal product of a manager. The value created by an individual manager's efforts and decisions is often inseparable from the value created by others, or from external factors such as changes in budgets, political decisions or industrial turmoil.

Kotter (1982) argues that the efforts of individual managers may contribute to organisational performance in complex and uncertain ways. Much of a manager's activity at work is spent in seemingly unproductive communication with other managers, subordinates and clients (Mintzberg, 1994; Kotter, *ibid.*). As a result, the assessment of managerial performance often depends upon subjective performance appraisals against job performance criteria with ambiguous links to organisational performance. The resulting ambiguity weakens the effect of pay on subsequent performance (Merchant and Manzoni 1989). Ambiguous performance criteria may also be associated with lower levels of perceived pay equity and lower pay satisfaction.

4.1.2. Preconditions for successful introduction of PRP schemes

Despite the difficulty of doing so, the importance of attempting to satisfy the above mentioned conditions has been recognised as a necessary part of the design and ongoing modification of performance-related pay schemes in the public sector in several countries (OECD, 1998). In Ireland, for example, the Review Body on Higher Remuneration in the Public Sector, in its 1987 report, identified the following as preconditions for the successful introduction of performance pay schemes. (a) It must be possible to identify clear objectives for

an individual on an annual basis; (b) an organisation must already have a system of performance management, a result-oriented system of management, in operation; (c) it must be possible to have informed, consistent and objective performance appraisal; and (d) a job holder must be capable of exerting control over the achievement of pre-set objectives and performance targets.

4.1.3. Relating rewards to organisational performance

The preceding section suggests that the more standardised a performance-pay scheme, the higher the risk of being incompatible to the existing organisational cultures, hence vulnerable to failure. According to Hughes (op. cit.), rewards can be related to organisational performance by means of profit-sharing, gain-sharing, profit-related pay and share ownership schemes. Such rewards aim to: (a) enable employees to share in the success of the organisation; (b) increase the identification of employees with the organisation; (c) focus employees' attention on what they can contribute to organisational success; and (d) obtain tax advantages for employees through approved profit sharing or share schemes and profit-related pay — such 'tax-efficient' schemes enable the organisation to get better value for money from its investment in HRM.

Schemes relating rewards to organisational performance, sometimes known as company-wide or factory-wide schemes, can be used to bring areas for improvement to the attention of employees. But they are not effective as individual motivators because the links between effort and reward are too remote (Hughes, op. cit.; Isaac-Henry, op. cit.). Many organisations, however, prefer not to link pay rises explicitly to the cost of living. Their policy is to respond to movements in market rates in order to maintain their competitive position, bearing in mind that increases in market rates are affected by the cost of living. They do not want to be committed to an 'index-linked' approach, even in times of low inflation.

4.1.4. The public - private compensation gap

The review and reform of public sector pay systems during the 1980s was influenced by a widening compensation gap between public and private sectors. Data collected by OECD (1990) show that across a range of OECD countries, salary levels of public sector managers lagged behind those of private sector managers by as much as 30 - 50 per cent during the 1980s. The disparities were greatest at the most senior levels of management. Because of these disparities, public sectors in several countries have experienced difficulties in recruiting and retaining managers especially those with specialist qualifications. The adoption of performance pay schemes was, in part, an attempt to improve the flexibility of PSOs in rewarding managers and to improve the competitiveness of the public sector in labour markets.

4.2. Individual PRP as a motivator

At the heart of this research is the issue of whether market-based incentive schemes would succeed in raising the motivation levels of public services. In this and the next section we examine this question for the individual performance related pay scheme in the case of British PSOs.

4.2.1. Background

It is never possible to be completely confident about the success of a new payment scheme before it is in place, but we do have two ways of assessing its chances of success. First, we can look at the success or failure of similar PRP schemes in other relevant sectors. Secondly, we can review the literature on PRP and ask whether the scheme has had structural features, which on theoretical or empirical grounds, make its success or failure more likely.

In some respects individual PRP is beginning to get an undeservedly hostile press. Commentators are increasingly asserting that it does not work, and indeed that it is counter-

productive. Hood (1995), for example, writes:

“this kind of individualistic, market-based payment system has had unintended and undesirable consequences in the private sector, demotivating employees ... in the round, payments by results increase worker turnover, lower morale and reduce commitment (ibid., p. 127).”

To take another, and perhaps more authoritative example, the well-known academic Jeffrey Pfeffer claims that individual PRP arrangements have ‘numerous problems’ and that the research evidence ‘suggests that they are frequently ineffective’ (Pfeffer, 1998, p. 96). In spite of these supposed failures, such systems are on the increase, at least in UK. So, unless we wish to suppose that managers are utterly wrong-headed we might want to pause before concluding that they cannot work.

The fact is that a whole variety of individual PRP arrangements do succeed in providing employees with incentives to work more effectively. The most obvious form of PRP comes from an employee’s chances of being promoted. Few people would deny that promotion prospects motivate a large number of employees to work harder and more purposefully; and few would deny that individual performance has a lot to do with who is promoted. Of course, not everyone seeks promotion, and money is not the only reward for being promoted, and no one would claim that objectively measured performance is the only determinant of promotion. But PRP, via promotion, is clearly a powerful motivating force.

Other forms of individual PRP also seem to have success. Payment by results (PBR) systems have a long history of use and success in certain manufacturing industries, and there are clear indications from recent case studies that their introduction can raise productivity sharply (Lazear, 1998). Nor is this success confined to manufacturing. Among workers in the Warwickshire County, for example, annual bonuses based substantially on individual performance clearly have had a significant effect on employee behaviour. So these systems can

work. But these successes do not mean that all forms of PRP work equally well in all organisations. There are by now a number of case studies of their impact in the UK public sector. The next subsections summarise the key insights from these cases of PRP schemes.

4.2.2. Empirical case studies of PRP schemes in the public sector

The typical conclusion from these studies is that individual performance related pay has not generally been a great success. Before reporting on these studies, however, it is worth looking at how they typically go about assessing the success or failure of PRP schemes. Managers normally introduce individual PRP schemes primarily in an attempt to bring about an improvement in their employees' productivity (see Cannell and Wood, 1992, for other reasons). But productivity is usually hard to measure with any precision or objectivity, which means that neither managers nor outside researchers find it easy to estimate the impact of PRP on productivity. So, managerial ambitions from PRP schemes are usually expressed in the indirect language of 'incentives' or 'motivation' rather than in the direct language of actual production.

As conceptualised in chapter 2 above, motivation is not the same as performance or productivity, and it does not refer to behaviour as such. Rather, it refers to willingness or preparedness to do something, e.g. a willingness to work harder, or to focus on one thing rather than another. This means that it is intrinsically hard to establish whether someone's motivation has changed, because it is a state of mind, not a directly observed form of behaviour.

(a) PRP scheme in the British Inland Revenue

Further evidence on the effect of performance pay on staff motivation comes from a study of a PRP in the Inland Revenue Service in the United Kingdom civil service (Marsden and Richardson, 1991). This study surveyed staff on their views concerning the impact of the scheme on their own behaviour and that of others.

The study found that although a majority of staff (57 per cent) accepted the principle of relating pay to performance, only a small minority (12 per cent) felt that performance pay had raised their motivation at work. Staff at the more senior grades reported the least positive motivational response towards performance pay. Officers responsible for carrying out performance appraisals (about 20 per cent of the total sample) were also asked how performance pay had affected their staff. Only a small minority reported any perceived improvement in the quantity or quality of work of their staff, or in staff commitment to their work. It was concluded that the respondents never reported a very strong motivational effect, although there was always a minority, usually small, who felt that PRP had affected their behaviour in the direction which management had sought.

As a cross-check on these responses the authors asked those respondents who were also appraisers, or line managers, to answer similar questions on their subordinates. Appraisers were typically no more enthusiastic about the motivational effects of PRP than were staff as a whole. Certainly there was no sign that the self-reported data from staff seriously understated any positive effects of the PRP scheme. Not all forms of employee response to performance related pay are organisationally beneficial.

Inland Revenue staff certainly saw some adverse implications from their experience of performance related pay, with majorities agreeing that morale and co-operation among staff had suffered. Indeed, after looking at all the available evidence, the authors concluded that:

“the positive motivational effects of Performance Pay ...were at most very modest. It is hard to see that they had been felt to any degree by more than a small minority of staff. ... Even worse, there is clear evidence of some demotivation. Although we cannot be sure of this, it would be easy to conclude that the net motivational effect, although small, was actually negative’ (Marsden and Richardson, 1994, p.253).”

Actual performance levels in the Inland Revenue, however, seem to have risen substantially during the 1990s. As Marsden and French note,

“... work loads of the organisation as a whole have remained roughly constant while staff numbers have been cut quite severely. This implies a potentially large increase in productivity.” (1998, p.35).

This raises a problem for studies seeking to assess the impact of PRP. Such schemes are very often introduced at more or less the same time as other changes, for example, new methods of organising work, or privatisation, or labour shedding programmes. A rise in productivity (i.e. output per head) might in those circumstances result from technical progress, more efficient organisation, work intensification, fear of losing one's job, or whatever. The fact that productivity goes up after PRP is introduced is therefore not sufficient evidence that the pay scheme itself has stimulated productivity.

The survey evidence from the Inland Revenue in Britain suggests that PRP affected employee performance to only a minor degree, though there was a growing differences in opinions between line managers and staff in this respect.

(b) PRP scheme in British local government

The effects of performance related pay have also been very carefully studied in local government, where it is very extensively in use. Heery (1998) surveyed staff in four different local authorities, each of which had its own particular scheme. One continued to use industry pay agreements but had added cash bonuses reflecting both individual and team performance. Two others had replaced the traditional incremental scales with their own modified scales; in one, progression through the new scale was governed by performance reviews, and in the other a cash bonus based on performance was added to the scale progression. The fourth authority had introduced a more radical system, replacing incremental scales with a complex salary matrix; in this authority, annual awards were heavily influenced by assessed performance.

In many respects, these results echo those in the two studies of the Inland Revenue. Heery's own verdict was as follows.

'The research presented above indicates that PRP schemes of the kind operated in local government tend to have a rather limited impact on workers' behaviour. The process of work in the four authorities, it seems, runs along its established course and PRP has been insufficient to jolt it down a radically new path. Like other (new human resource techniques]. PRP in this respect appears to be something of a damp squib' (pp.2-19).

(c) PRP scheme in the British NHS

A third study, by Dowling and Richardson (1997), looked at a system of PRP for managers in the National Health Service which had been in place for nine years. At the time of the study, the system took the form of an annual assessment of how far individual objectives had been met, and then a salary increase based on that judgement. The survey was directed to all the managers in six NHS Trusts in the UK. The authors' own conclusion was that:

'the scheme is working, albeit to a limited extent. It may not frequently have a powerful effect on managers' motivation or behaviour, but where there is a discernible impact, it tends to be favourable for the scheme. Importantly, there is no serious suggestion that the scheme is inducing counter-productive changes.' (Dowling and Richardson, 1997, p.353).

In yet another study of PRP in the NHS, Marsden and French were interested in comparing the effects of a scheme of individual PRP in one Trust. This was a variant on other schemes already discussed but it also had an explicit quota or target distribution of performance ratings; 60 per cent of staff were to be classified as 'good, 20 per cent as 'superior' or 'excellent' and 20 per cent as 'acceptable' or 'poor'. These were not absolutely rigid targets but any significant deviation from them would be examined and had to be justified.

In some respects performance related pay looks to be more successful in this organisation than in the others already considered, with more than 30% of respondents acknowledging some specific motivational improvements. On the other hand, there is again a clear tendency for trust and co-operation to be threatened and a dismaying majority identifying jealousies and loss of morale. These may reflect a generalised agitation rather than costly behavioural consequences but they should nevertheless be a source of concern for the proponents of PRP. Further

evidence on the impact of the scheme came from the responses by line managers. If line managers are right, PRP was having quite a strong impact in this Trust.

Naturally, half of them saw the PRP scheme as inducing some degree of improvement on the quantity of work and in the willingness of staff to go beyond their job descriptions. It is also interesting that they should have this view for a group of employees in a sector where motivation is traditionally thought to come not from money but from a variety of intrinsic rewards.

(d) Performance related pay in the Water industry

Results that echo those of Heery, Marsden and French and of Marsden and Richardson were found in an as yet unpublished study by Thomson (1997) of employees in the Water industry. Water in UK is, of course, no longer in the public sector but it probably still has important remnants of the public service tradition, so the results are of relevance to this study. The PRP scheme in place at the time of the study was similar to some already described. There was, first, a complex assessment process of individual performance, based on seven criteria (including such things as working relationships, adaptability, customer service and managing others). The overall performance assessment was then translated into an individual pay increase by applying it to the organisation's salary matrix.

As in previous studies, fewer than 20 per cent of the respondents see any change in the forms of work behaviour that managers were looking for. And, as before, trust between employee and manager tends to be threatened, jealousies are reported and team-working is seen to be somewhat compromised.

(e) Performance related pay in the Employment Service

Marsden and French (op. cit.) also looked at the impact of performance related pay in the

Employment Service. The Employment Service had a complex form of PRP scheme, known as 'equity share'. Under this scheme, individual performance was appraised against preset objectives, which resulted, as in the Inland Revenue, in a box marking (from A for 'exceeded' to D for 'not met').

There is a familiar pattern to these results by now. There are definite but small indications of positive motivational effects together with more serious indications of reduced co-operation and tensions at work. The authors' own conclusion was that:

"the Equity Share scheme is not only failing to motivate many of the staff, but it also is believed to damage relations between managers and staff among a sizeable minority of staff. Given these responses, it would be fair to surmise that the net effect of performance pay on motivation has been negative. (Marsden and French, op. cit., p.51)."

Marsden and French also sought the views of line managers on the impact of performance related pay in the Employment Service. Line managers tended to see somewhat less benefit to their system of PRP than did their counterparts in the follow-up study of the Inland Revenue. They again saw the greatest effect to be on work quantity, rather than, say, on work quality. This is to be expected in what is, after all, a bureaucratic organisation with a lot of clerical staff. The situation for other services, say teaching, and the relative importance of quality and quantity, is likely to be different.

(f) The case of PRP in schools

Finally, we turn to Marsden and French's study of PRP for school head teachers. It is difficult to see from this case any enthusiasm for PRP scheme amongst head teachers. The authors' own conclusions are a little more shaded, however. They conclude that:

'the most widely held view among heads and deputies, who have now had pay linked to performance for six years, is negative. They do not agree with the principle; its impact on target setting has been small, and that on personal motivation small or irrelevant; and it is believed to damage morale in schools and weaken team working. However, if one concentrates on the replies of those who have received performance enhancements, the judgments are markedly less negative and often positive.' (Marsden and

French, op. cit, p.121).

The authors then consider two interpretations of their findings on PRP, one that is ‘optimistic’ for PRP scheme and the other ‘pessimistic’. On the balance, they clearly believe that the pessimistic case dominates their enquiry. This does not mean that PRP would be necessarily an outright failure for teachers, although it must be said that, on the basis of Marsden and French’s study of head teachers, the ground in education looks to be more than usually stony.

On the other hand, if PRP were to energise even 20 per cent of teachers it might on balance be considered a success, especially if there was only limited de-motivation among the remaining 80 per cent. In other words, it might be deemed, if not a dramatic success, then at least a modest one. The chances of achieving even this depend on a number of factors, especially certain structural features of PRP schemes.

The “pessimistic verdict” about PRP in PSOs is what can be derived from the review of these studies. Despite issues of compatibility of market-based incentive schemes being raised in the current debate, none of the empirical studies reviewed so far have explicitly addressed them. To bridge the gap therefore, this study argues that unless issues of organisational capacity to adapt to market-based managerial changes, and stakeholders attitude surveys are primarily addressed the same verdict will prevail in developing countries where PBIs are contemplated.

4.3. Effectiveness of Individual PRP in UK public sector

Following on from the reviews of the various case studies on PRP in Section 4.2 above, this section examines the question of why individual PRP has had such a limited impact on performance in UK public sector. The aim is to assess the extent to which issues of compatibility of market-type motivational policies in the public sector are such a topical theme in the whole debate surrounding their implementation in PSOs. A related issue is whether the

PRP schemes in UK public sector reproduce features which have contributed to this limited effectiveness, thereby making it more likely that it would also fail to motivate public sector employees elsewhere on a significant scale. In order to understand where these schemes might go wrong it is worth drawing on five theories of motivation, namely AGREE, the framework which is then used to probe a variety of structural weaknesses in the schemes that have been in place.

4.3.1. Acceptability of PRP principle

Reviews of case studies in s.4.2 above indicate a blanket acceptability of PRP principle because Marsden and Richardson found that 57 per cent of Inland Revenue staff agreed that performance related pay was ‘good in principle’ (Marsden and Richardson, 1994, p.250). Marsden and French found much the same perception five years later. 60 per cent of Heery’s local authority staff thought that it was right that individual performance should have a strong influence on pay increases (Heery, op. cit., p.157). 67 per cent of Thomson’s water company staff thought that relating pay to performance was in general a fair way of paying staff. 72 per cent of those in the Employment Service, and 57 per cent of those surveyed in NHS Trusts agreed that the principle was a good one (Marsden and French, op. cit, p. 43-88).

The sole exception among all those who had experienced PRP were the headteachers. Marsden and French found that only 29 per cent of NAHT members and 42 per cent of SHA members expressed agreement with the principle of performance related pay (Marsden and French, op. cit, p.113). This may reflect what the literature takes to be the ‘culture’ in teaching but it may also be the case that PRP faces special difficulties in education. Whatever is true for teachers, however, the modest motivational impact of PRP in the earlier studies cannot be attributed to a wholesale resistance to the principle of linking pay to performance. Rather, it must come from the PRP as it has actually been experienced.

The final observation is that employees may accept the principle but they may simultaneously deny that relating pay to individual performance has materially affected their own behaviour at work. They might think it right that someone who does a better job should be paid somewhat more, just as they may accept that better performers deserve promotion that is more rapid. But they may also believe that the amount of work they do, and how they do it, are determined by other things for example, by internalised professional or personal standards. So agreeing with the principle of PRP might reflect the criterion of fairness rather than an acceptance of the incentive argument. What about the financing of the scheme?

4.3.2. Financing PRP Schemes

Curtailment of the funding available for performance pay, by limiting the rewards, which the schemes can deliver, undermines the likelihood of achieving performance gains or other organisational benefits. Budgets for performance pay schemes serve many different functions and, in combination with other design features such as quotas, may act as a major constraint on the success of a PRP scheme. Inadequate funding and changes in budgets have hindered the operation of several schemes. For example, the Canadian performance pay scheme for the Management Category was suspended for several years due to a lack of funding, and even when it did operate, the rewards paid were often small due to budget constraints. From 1985 to 1991, funds were available for the scheme to operate as intended.

In the United States, the performance bonus scheme for the Senior Executive Service, which was introduced under the provisions of the 1978 Civil Service Reform Act, was originally budgeted for up to 50 per cent of staff in each agency to receive awards in any year. Soon after the first round of awards was announced, Congress effectively halved the budget for the scheme by reducing the quota of staff who could receive an award to 25 per cent. The Office of Personnel Management (the central personnel agency of the Federal government)

further reduced the quota to 20 per cent. This generated dissatisfaction and cynicism among executives whose salaries had been limited by a “pay cap” for several years and who viewed the performance awards as an opportunity to gain justified salary increases (Milkovich and Newman, 1996).

The experience in Canada and the United States provides some specific illustrations of the more general problem that funding for performance pay schemes in the public sector may be vulnerable to budgetary cutbacks in times of economic constraint. This is a critical issue because the level and stability of funding for schemes are likely to have a major impact on the success of schemes. Another likely impediment is the ability of PSOs to use qualitative performance indicators.

4.4. Recap of the Research Issues and Questions

Literature and the evidence provided by empirical research tend to present a less optimistic picture of the viability of the ‘*off-the-shelf*’ schemes promoted by scholars (Mabey and Salaman, 1995; and Hughes, 1999). They suggest that successful PM model practices, of which PRP may be one dimension, may need to be user-designed or organisation specific. However, there seems to be a consensus by both textbook writers and empirical researchers that a series of issues and questions summarised below surround the operation of PBI schemes in general and remain inadequately researched.

The adoption of market oriented reward systems along with other NPM practices has not been without resistance on the ground. The issue of compensation and reward systems management in the public sector can be seen as indicative of the contradictions that exist within the discipline of HRM with the following key research issues dominating the debate:

4.4.1. Difficulties in cultural change

In many public organisations, strategy is imposed from above either by politicians or by ‘heroic management parachuted in by charismatic chief executives’ (Pollitt op. cit: 283). The introduction of private sector-based reward systems and incentive schemes in PSOs requires basic rethinking of the traditional cultures, beliefs, values and behaviour of managers and workers. Efforts by central governments across the board to restructure PSOs over the last two decades have had limited success (Pettigrew, *et al.*, 1992). There are examples in local government, where newly appointed chief executives arrive with ready-made strategic plans which often are not discussed within the organisation as a whole and sometimes bear little reality to the organisation’s work or culture (Isaac-Henry, op. cit.).

In executive agencies too, there are complaints that in formulating strategic plans ‘individual employees on whom performance of the organisation is highly dependent have been largely ignored’ (Martin, 1999:37). A general criticism of the attempt to change management philosophy and practice is that although government and public sector managers acknowledge the importance of culture, they have not been prepared to invest the resources of time, effort and money in bringing about the appropriate cultural change.

Indeed at times it could be argued that culture is often treated as something which can be turned on and off by managers at their own discretion (Pettigrew, *et al.*, op. cit.). One local chief executive having taken up his post in 1997 was reported to have set himself the task of obtaining effective corporate leadership, sound finance, organisational change, performance review and community involvement, all within his first nine months in office (*Local Government Chronicle*, 1997:12). Often much effort is spent on the ‘what’ of change and little on the ‘how’ (ibid.). As a result, culture, which is considered of such significance to effectiveness of ‘change management,’ has been neglected in favour of efficiency

and meeting targets. This is one of the reasons why the issue of capacity of PSOs to accommodate managerial practices from the private sector is of such significance for this study.

4.4.2. The issue of capacity to accommodate change

Associated with the aspiration for addressing the issue of changing culture and increasing openness in an organisation is the need to develop what Collinge and Leach (1995) call the 'capacity' of the organisation. While the context, content and processes are crucial to the outcome of cultural change, those factors can themselves influence and be influenced by the organisation's capacity for taking strategic direction and to accommodate change. Empirical studies note that a pay system can be used as a vehicle for organisational culture change (Kessler and Purcell, op. cit.; Armstrong and Murlis, op. cit.). However, PRP may simply be one of a number of initiatives designed to achieve cultural change. Armstrong and Murlis (ibid: 73) suggest that *'the necessary culture may already have to be in place for a system of PRP to work effectively'*, as PRP alone may be incapable of becoming the primary driving force of cultural change.

Analysis of capacity issues

For the purpose of this study, capacity refers to the conditions in terms of the PM framework and processes put in place in local government system to allow the successful and smooth implementation of performance-based reward systems and incentive structures. Thus as a strategy to simplify the analysis of research findings relating to capacity issues, it is conceptualised that to 'develop and refine strategic direction, a local authority, for example, must strengthen this capacity for strategy formulation and implementation' (Collinge and Leach, op.cit:344).

Capacity in this context is concerned more with *conditions, organisational structures and processes for effective development of strategy* than with the *substantive strategy* itself. It is

argued that in developing such capacity for organisational cultural change some of the following features must prevail (ibid. 345-6): (i) The articulation by leaders (politicians as well as officials) of the need for such a strategic capacity; (ii) The creation of conducive bodies, structures and communication systems at corporate level, to facilitate greater co-operation and breakdown duplication; (iii) The development of a culture which rejects short-termism and departmentalism and is more conducive to a more integrated approach.

However, there is *no one best way* of introducing change in organisations. Conventional wisdom suggests that effective change involves consideration of stakeholder interests, participation, effective communication and development, and learning as some of the various means of changing organisational, attitudes and behaviour.

4.4.3. The issue of performance-based reward systems & incentive schemes

The literature argues that PM process should ensure that good performance is recognised in such a way that the job-holder feels fairly rewarded for his/her achievement and is motivated to maintain (or improve) on good performance next year (NAHT, 1995). Cash and/or non-cash incentives should reward good performance (however it is defined). If cash is used (called Performance Related Pay - PRP) it should supplement a base salary which is felt by job-holders to be fair, equitable and competitive (reflects job responsibilities and market rate).

PRP schemes, which link incentives to the results of an individual performance assessment, have spread rapidly through the public services in recent years and are often regarded as indicators of a fundamental shift in the employment relationship (Heery, op. cit). In a public sector environment, the creative use of non-cash incentives can go a long way to stimulate the good performer (who might be good).

PRP scheme is one of the most widely copied private sector practices, which is used to get the

personal commitment and accountability of senior public sector managers. PRP was introduced into the civil service in 1985 (OECD, 1993). PRP provides for periodic increases in pay, which are incorporated into salaries, resulting from assessments of individual performance and personal value to the organisation. Supporters of PRP argue that where scope for increasing salary budgets is severely limited, PRP enables the money available to be distributed in the most cost-effective way. It is also claimed that it enables employers to reward excellence and retain key staff (ibid.).

Critics of PRP, on the other hand, argue that there is no evidence that the 'performance-pay linkage' strategy motivates people unless large sums are involved (OECD, 1997). One of the conditions for the establishment of effective performance-based incentive schemes is proper assessment of performance. Therefore, there is also criticism of appraisals as employees sometimes regard them as unfair, subjective and divisive in the ways in which they are applied (Pilbeam, 1998). Despite the cold and mixed reception given to the scheme, PRP has since been extended to other management and non-management grades and now covers the whole of the service (ibid.).

Criteria for Success

The inherent objectives in introducing a reward system such as PRP scheme can have a significant impact on the success, or otherwise, of the scheme itself. Armstrong and Murlis (ibid.) suggests that "*each scheme needs to be assessed in the light of each organisation's objectives.*" Furthermore, the manner in which a reward system and incentive scheme is formulated and implemented, and the extent of employee participation in this process, will also have significant impact on the success of the scheme.

Empirical research (Lawler and Hackman, 1969) suggests that plans will be more conducive to both acceptance and success if employees are involved in their formulation. As Lawler (1995)

puts it, pay-for performance reward systems ‘must create a clear line of sight between an employee’s behaviour and the receipt of important amounts of money’. In particular, Lawler suggests the following success criteria:

1. individuals need to be clear about the targets and standards of performance required, whatever they may be
2. they must be in a position to influence their performance by changing their behaviour or decisions
3. they should be clear about the rewards they will receive for achieving the required end-results
4. the rewards should be meaningful enough to make the efforts required worthwhile – and the communication of the rewards should be positively handled
5. the incentive or bonus formula should be easy to understand
6. fair and consistent means are available for measuring performance – it can be said that ‘you can’t pay for performance unless you can measure performance’
7. it is appropriate to the type of work carried out and the people employed on it and fits the culture of the organisation;
8. the reward follows as closely as possible the accomplishment which generated it;
9. individuals should be able to track performance against targets and standards throughout the period over which performance is being assessed.

These are demanding criteria, and it is no wonder that performance pay schemes often fail to meet expectations.

4.4.4. The issue of performance measurement schemes

There has been little prior research into performance measurement and accountability systems in the British local governments. Therefore, this research is designed, among other things, to fill in this research gap. From an internal control perspective, performance measurement and accountability systems are designed to monitor the implementation of an organisation’s plans and determine when the plans are unsuccessful and how to improve them (Atkinson, *et al.*, 1997). These systems are used to focus attention on the organisation’s objectives, to measure and report on performance and to understand how the process of performance affects

organisational learning (ibid. 1997). Identifying operational problems, which can be resolved by adjusting existing processes, and pinpointing more potential problems, which require an adjustment to the strategies of the organisation, are further uses of performance measurement and accountability schemes (Argyris, 1977).

The quality of performance measurement process alone also promotes managerial accountability to stakeholders, particularly in PSOs where the nature of 'stake-holding' is homogenous. That is many parties are interested in monitoring whatever is happening within PSOs. There is a great deal of literature on performance measurement in government, and governments around the world have made large investments to develop performance measurement systems, frequently related to notions of accountability (see for example Thompson, 1995; Osborne and Gaebler, 1992).

4.4.5. Issues relating to perceptions of equity of PRP schemes

The success of a reward system does not lie solely with employees' involvement in the initial designing stages, or indeed even with a particular set of procedures designed to administer such schemes. Without the presence of perceived fairness, trust in a reward system or incentive schemes such as PRP is likely to be low. Most importantly, there is the potential and distinct risk that the contingent link between performance and pay will not be accepted. For example, it has been noted that managers are often unhappy with their wage system because they do not perceive the relationship between how hard they work (productivity) and how much they earn as equitable (Harlow and Lawler, 2000). The issue of fairness is even more critical in steeper organisations such as local authorities where opportunities for promotion may be limited or remote.

In a broad perspective, the issue of 'perceived fairness' entails three aspects: fairness in terms of attempts by the employer to satisfy the intrinsic needs of employees, meeting

their expectations, and in terms of equitable distributions of reward packages across the board. Several solutions for this problem of 'perceived unfairness' have been suggested. These include the extent to which employees have the opportunity to participate in pay design decisions, the quality and timeliness of information provided, the degree to which the rules governing pay allocations are consistently followed, the availability of channels for appeals, and the organization's safeguards against bias and inconsistency (Hall, 1987).

Harlow and Lawler (op, cit.) point out that the 'more frequent the formal and informal reviews of performance and the more the individual is told about the reasons for an increase, the greater his preference for a merit increase system and the lower his preference for a seniority system.' Frequent reviews, coupled with the opportunity to air grievances through a formal appeals process, may therefore eliminate many of the difficulties associated with employees' perceptions of unfairness.

Issue of short-termism

In addition to the issue of fairness, problems associated with PRP include a tendency toward a short-term focus on quantifiable goals to the neglect of more long-term issues. There may also be measurement difficulties, in terms of both difficulty in measuring the work of professionals and attaining a fair and consistent means of assessing employees which will avoid the risks of subjectivity (Kessler and Purcell, op. cit.; Beer, 1985). Lack of communication identified as the principal failing and lack of agreement on objectives and standards of performance and insufficient feedback may create further difficulties (Armstrong, 1993; Mabey and Salaman, 1995).

Storey, op. cit.) argue that PRP would appear to undermine utterly the whole concept of teamwork spirit. From research in multinationals operating in Ireland, Mabey and Salaman (op. cit.) found contradictory evidence of management's strategy which attempted to develop

simultaneously a collective identity focused around teamwork, while discriminating between individual contributions. Current trends towards PRP systems pose a potential threat to the pursuit of greater gender pay equality as discretion in pay determination increases and there is no clear relationship between earnings and job grade (Rubery, 1995). This study has not examined the basis for this view drawing upon the now widespread literature and research into performance-related pay in the UK.

Issue of gender equality in PRP

The argument is made that the problem for gender equality lies both in the nature of the payment system and in the context in which it is being applied, including the changes in the nature of employment relationships that are accompanying these developments. While some women may benefit, overall the moves towards widening income dispersion and the increased importance of management discretion and appraisal are likely to disadvantage women. However, the individualisation of pay is likely to lead to further fragmentation of the interests of women, reducing the likelihood of collective resistance. Opportunities to monitor pay trends will also decrease as the spread of PRP reduces transparency of labour market (Farnham 1993; LGTM/LACSAB 1990; Donaldson 1992; Young 1996).

Several questions raised by empirical studies about this contemporary practice of linking pay to performance in PSOs remain unreciprocated (Horton and Farnham, 1999; Isaac-Henry, op. cit; OECD 1993, 1996, 1998). This study is an attempt to examine some of these issues.

4.5. Conclusion

Performance pay schemes are part of a wider set of reform “*add-ons*” to the structures and managerial processes of PSOs that have been implemented in many OECD countries during the last two decades. These reforms have been described as the “new managerialism” because of their frequent adoption of techniques from the private sector and the elevation of

managerial skills, relative to policy and advisory skills (Flynn, 1990). The comprehensive process of change to PSOs has emphasised on modernisation of public services, decentralised managerial and financial control and the fostering of what is described as a “performance culture.” This study examines the role of motivation theories in bringing about this ‘culture’ in public sector organisations. PRP incentive schemes are one of the strategies transposed from private sector into public services as an integral package of NPM strategy to improve the quality of service provision.

This chapter has examined the context for introducing PRP schemes in public services across various countries. The chapter has also reviewed cases that have addressed the issue of implementation of PRP schemes in the British PSOs with a view to exploring what is known so far about these schemes and the gaps towards which to contribute. It may be concluded that in a pragmatic perspective the five areas of PM model framework as identified in the literature are not novel. Studies addressing aspects of them have been part of the management control and wider management literature for many years. However, the integration of the five areas to provide a description of the overall PM and control systems of an organisation is relatively novel.

It may also be argued that the five areas are heavily inter-connected and procedures introduced to address one question may well impact upon the other areas identified. The PM model strategy is not intended to provide a normative or prescriptive framework, but rather to provide a more comprehensive descriptive framework within which the features of an overall motivational policy and PRP scheme in particular can be assessed and evaluated.

Several empirical studies reviewed here suggest that the implementation of PRP schemes has faced a host of operational upheavals in the private sector and in various central government agencies. In particular, there are three categories of issues of concern that have

not been adequately addressed by previous studies. First, the capacity and operating environment in terms of the overall organisational culture and prevailing values within which these market-based motivational initiatives have had to be implemented. Secondly, the ‘goodness of fit’ of the performance measurement and accountability processes; and thirdly, the perceived equity of the PRP incentive schemes. The main argument of this study is that the motivational and satisfactional value of any performance-based rewards and incentives policy is a function of these three issues. The design of the methodology to attest this hypothetical proposition is the concern of the next chapter.

PART III

Research Design

Chapter Five

RESEARCH DESIGN

5.0. Introduction

This study argues that, unless fundamental issues of capacity, performance measurement and accountability, and expectations of the key stakeholders are acknowledged and adequately addressed at the designing stage, the ‘off-the-shelf’ performance-pay incentive schemes will remain vulnerable to failure. In this perspective, the study examines logistics of the ‘*wholesale*’ implementation of private sector oriented performance-based reward systems and incentive schemes (PBIs) using the case study of the British local authorities.

Various theories and empirical studies on employee motivation, reward systems and incentive schemes have informed this study. The research hypothesis is derived from literature reviews on performance management systems and their practical implications in public sector organisations (PSOs). This hypothesis was originally used by Beer, et al. (1984) with only the third variable, i.e. perception of equity. As a contribution to knowledge, this study has modified Beer’s model by incorporating two variables: organisational culture and objectivity of performance measurement and accountability processes. This chapter is concerned with research design and is organised into two main parts: first, research hypothesis, approaches and methods; and secondly, the analytical framework strategy.

5.1. Hypothesis of the Study

Hypotheses are normally at two levels – a general hypothesis to express the broad idea of interest, and a working or experimental hypothesis, which contains more specific, but also limited, concepts or indicators which can be measured. According to Yin (1994), four

characteristics of a research hypothesis are: should contain two concepts (clear, identifiable, measurable in degree); should propose a causal-effect relationship between the two concepts; the concepts used must be capable of being reduced to a level where they can be measured objectively, or at least recognised consistently; and a research hypothesis should always, or nearly always, relate to an existing wider body of knowledge or theory.

5.1.1. The general hypothesis

The general hypothesis of this study is that a performance-based incentive scheme such as PRP may be introduced by a local authority wholesale as a means of raising organisational performance, but doing so without tackling the issues of culture operational capacity and stakeholders' perception of equity carries a serious risk of failure. Failure means inflating wage bill without securing the desired benefits of the scheme.

5.1.2. The Operational hypothesis

The operational proposition of the thesis is therefore that irrespective of the typology of an organisation, the motivational and satisfactoral value of an employee compensation and reward systems policy is a function of:

- an organisation's capacity to absorb and accommodate the challenges of change (OC);
- the objectivity of performance measurement and accountability framework within which an incentive scheme is operating processes (PMA); and
- the perceived equity (PE) of the installed performance-based reward system and incentive scheme by the stakeholders as measured by its characteristics of success such as general acceptability, motivator, purpose, appraisal objectivity, feedback systems, joint consultations (goal setting), organisational culture (Vroom, op. cit; Kelly and Monks, op. cit.) as advocated by Adams (1965).

5.2. Approach of the Study

A field within case study approach is used in this study as this is regarded to be an exploratory research of a contemporary phenomenon. Field studies and interviews during case studies provide richer data than can be gained from survey research, and can explore causal effects more closely (Abrahamson, 1983). Primary data gathered from the interviewees during case studies have been used to give meaning to the results. The study is qualitative but the strategy for analytical framework is both quantitative and qualitative. Three main research instruments are used to collect and collate data from the field. First, responses were collected from case studies using semi-structured interviews, observations and discussions instruments. Secondly, data were collected from the survey using the questionnaire instrument. Finally, secondary data was sourced through desk research, which included the Internet.

Using the 'survey or field within case study' approach (Holloway, 1997), the follow-up interviews were carried out based on the responses provided by the questionnaires. Making an inquiry with a view to learning a lesson from the experience of a practitioner of a contemporary phenomenon requires that the researcher be closely integrated with the unit or subject of analysis for a considerable length of time. In such circumstances, the case study approach is said to be more appropriate than other qualitative research methods of surveys and experimental (Holloway, *ibid.*). What is a case study; what are its limitations and justifications? The next subsections attempt to define what a case study is and justify the choice of the approach used in this research.

5.2.1. Definition of a Case study

A case study in research is an entity, which is studied as a single unit and has clear boundaries; it is an investigation of a system, an event, a process or programme (Merriam, 1988). However,

the term has changed its meaning over time (Platt, 1983). It is used for a variety of research approaches (Yin, 1994), both qualitative and quantitative, but in this study, it describes the qualitative study.

Case studies differ from other qualitative approaches because of their three key distinguishing features of *specificity*, *boundedness*, and *multiplicity* of evidential sources (Holloway, 1997; Yin, op. cit.). According to Yin a case study as an empirical inquiry is preferred when the subject to be investigated is a contemporary phenomenon with its real-life context; when boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

In addition to this Holloway argues that case studies always have a specific focus of inquiry and concentrate on the examination of individual cases e.g. one, two or three local authorities, each one of which stands as a case. The contemporary phenomenon to be investigated in this study is the practice of private sector-oriented performance management model, incentive schemes and reward systems in public sector organisations. The study is bounded within the British local authorities. The use of the survey within case study approach coupled with desk and Internet research exhibit the multiplicity of evidential sources of data to justify the use of a case study approach.

5.2.2. Justification for the Survey within Case Study Approach

As in other qualitative research, a case study is a way of exploring the phenomenon in its context. A single case study may not be generalisable, but if it confirms the findings of previous studies, then it is a step towards generalisation. Researchers use a number of sources in their data collection, for example observation, documents and interviews, so that the case can be illuminated from all sides to achieve generalisability or internal and external validity (Merriam, op. cit.).

Observation and documentary research instruments are the most common strategies used in case study researches (Holloway, op. cit.). However, when the purpose of the study is to understand the context of a contemporary phenomenon and extract lessons, a case study research approach can be an invaluable exploratory device (Gill and Johnson, 1997). It can stand on its own right and involve intensive observation and in-depth interviews. According to Preece (1994), and Sharp & Howard (1996), a case study is a complex research activity, which may combine a number of general research instruments, such as interviews, observations, discussions, questionnaires, focus groups etc.

Of course, other approaches are frequently used in an academic research such as the laboratory experiment, the field experiment, and the surveys. The laboratory is relevant to all the major research subject groupings (with the possible exception of humanities) but is primarily used in physical science, life science and engineering research (Sharp & Howard, 1996:12), therefore unsuitable for this study.

In the context of research method a field experiment entails controlled investigation conducted in a non-laboratory condition (Abraham, op. cit.). There are some similarities between the survey and field experiment in that, techniques relevant to the latter may also be used in the former (op. cit., 1996).

However, whereas field experiment implies controls and need not necessarily involve people the survey is a method of extracting peoples' attitudes and opinions from a sizeable sample of respondents (Holloway, *ibid.*). There are inherent controls implied in a field experiment method, and there is a need for a large sample in a survey method. Therefore, all these three approaches to research were not considered suitable for this study due to the following reasons:

- (i) Firstly, the field experiment could be adopted in this study but it implies controls and conditionalities that are not applicable in this type of research agenda

(Holloway, *ibid.*, Abrahamson, 1983).

- (ii) Secondly, the survey approach is very common in most social science researches (May, 1993, Fowler, 1993). A fundamental feature of the survey approach is that it requires a relatively sizeable sample of respondents (de Vaus, 1993; Oppenheim, 1995) which requirement has not been met by this study due to financial constraints.
- (iii) Thirdly, some researchers claim that large sample size, far from being useful, prevents examination of meaning and context (Banister, et al., 1994).

This at least justifies why the case study approach has appeared to be the most appropriate and suitable for this study despite its shortcomings.

5.2.3. Limitations of the Study

The concern of this section is to pinpoint, in a nutshell, the limitations of the study due to the research approach adopted. The case study approach is not free from critics. It lacks academic rigor (Larbi, 1998) and external validity (Holloway, *ibid.*). While the results of case studies may also tend to confirm or reject general ideas (Preece, *op. cit.*), it is unlikely that sufficient information will be presented to enable generalisations to be made.

The purpose of this qualitative research is to draw lessons from the experience of the British local authorities in the practice of PM model and PBI schemes. Although not all councils have been studied, still generalisations can be made from a few units of analysis that have been selected. This is supported by Payne & Cuff (1982), whom argue that generalisations from a few cases are possible - just as a small group of statements can establish generalisations about an entire language, so individual cases can do the same for a subculture.

However, considerable care has been taken in the collection, collating and analysis of all the evidential matter in order to minimise the impact of these shortcomings. In particular, specificity and boundedness of the research approach adopted has significantly reduced the

generalisability deficit of the study by conducting a survey within case study.

5.3. Methodology and sample of the survey

In practice, the choice of either qualitative, quantitative or a combination of the two research methods depends on the nature of the phenomena being investigated, the research objectives and the state of existing knowledge (Preece, op. cit.; Sharp & Howard, op. cit.). This study was not able to use both qualitative and quantitative methods of data collection because of the nature of the research problem and hypothesis of the study. However, in the data analysis both techniques were used. Data gathered were qualitatively analysed based on the PM model framework. Responses to the survey questionnaires were analysed using the Statistical Package for Social Science (SPSS) computer software. The procedure is described next.

5.3.1. Methodology

Three main variables were derived from the hypothesis of the study consisting of: (i) organisational capacity (OC), (ii) the performance measurement and accountability, and (iii) stakeholders' perception of equity (PE). In a PM perspective, these variables were translated into an open-ended topic guide from which close-ended questions were generated in the form of questionnaires. Then, these questions were numerically labelled to suit requirements of the SPSS computer programme.

Finally, responses to every question were coded for the convenience of the SPSS. For example a YES response was coded as '1', NO coded as '2', NOT APPLICABLE coded as '3', and too busy to respond coded as '0'. There were questions requiring responses such as Strongly Agree, Agree, Not applicable, Disagree and so on. These were also coded accordingly in order to simplify the collation and final analyses.

During case studies, interviews and discussions were conducted according to key research guiding questions (see paragraph 5.4 below). A cross-section of managers in each participating British local authorities (see Appendix D) was contacted and their views are discussed later in Chapter Six, Seven, Eight and Nine of the thesis.

5.3.2. Why British local authorities?

Unfortunately, Tanzania is one of the poorest sub-Saharan African countries. Formally, a British colony, Tanzania obtained her independence in 1961 and pursued socialist policies of planned economy under the leadership of the late Mwalimu J. K. Nyerere. Despite various ‘off-the-shelf’ Structural Adjustment Programmes (SAPs) pioneered by the World Bank, IMF, donor countries, NGOs, and other international management consultants, the country’s economic performance did not improve. The quality of public services especially in urban areas deteriorated drastically. This provided the thrust or drivers for public sector reforms and change of policy from planned to market economy.

Although the constitution of the United Republic of Tanzania (URT) has not formerly pronounced the end of socialist policies, and the beginning of the new era of market economy, new public management (NPM) practices enforced by globalisation policies have rendered socialism and self-reliance policy in Tanzania automatically redundant.

NPM practices include, among others, privatisation, contracting out, downsizing, and performance management to mention just a few. However, for obvious reasons Tanzania is experiencing an acute shortage of skilled personnel capable of implementing these public sector reform policies. This study has singled out one icon of the NPM practices i.e. the PM model, which has become commonplace in the public sector in OECD countries. Because the public sector reform in general and local government reform in particular is still at an infancy stage, Tanzania is obliged to depend heavily on foreign expertise to train, manage and

monitor these public sector reform initiatives – which is a costly option.

Generally, the experience of the British is relevant, not only to Tanzania, but also to other developing countries in their thrust to modernise public services through market-type managerial practices in their local government systems. Therefore, it is anticipated that the lessons gathered from the British local authorities in the implementation of performance management principles and performance-based incentive schemes will make a valuable contribution to knowledge and reforms in Tanzania and perhaps other DTEs. In particular, the choice of the British local authorities as the main case study was carefully made on the basis of a number of motives. First, the historical ties between Britain and developing countries as narrated above were the foremost impetus. Most of the current Laws and Ordinances governing local authorities in Tanzania were inherited from or written by the British.

Secondly, UK is one of the OECD Member countries where both performance management and PRP schemes have been practised in the local government system. In addition, the UK is more advanced in the use of PM approaches than most OECD countries except perhaps Australia and New Zealand. Thirdly, insights from developed market economies indicate that UK has attained furthest achievements on reforms based on the application of market mechanisms in the public sector management (Kickert, *ibid.*). Therefore, most importantly ‘information richness’ of the British local government system, and awareness of the lessons and best practices from the UK experience rather than direct transfer of this experience to Tanzania were considered significant driving factors.

5.3.3. Time Frame

The data collections exercise for the pilot study lasted for about three months with effect from 9th January 1999 through 25th March 1999 inclusive. The main study lasted for about five calendar months with effect from 8th March 2000 to end of August 2000. Originally,

the study was planned to last for about four calendar months but due to local General Elections in May 2000, some of the interview visits were postponed. A longer time-scale was not possible due to the scope of the study and financial constraints.

5.3.4. The sampling frame

Preliminary inquiries or the pilot study of the research questions was based in Solihull and Birmingham local authorities for three months from January to March 1999. This helped to revise, review and recast the questions with a view to making them adequately address the focus of the research problem. The main study was focussed on four local authorities of Redditch, Sandwell, Birmingham and Warwickshire local authorities. These councils were purposively selected for interviews, discussions and observations because of their proximity and convenience of the study. They were operating either a PM system with or without PRP schemes. However, in order to achieve the external validity of the study survey questionnaires were used to elicit views from other knowledgeable personalities outside the selected councils. The sample size in qualitative research is relatively small but consists of ‘information-enriched’ cases – in practice large samples are rarely selected (Holloway, *ibid*: 142).

A purposive sampling technique was used in this study (Peil, et al. 1992). In fact qualitative sampling is generally purposive or purposeful (Holloway, *ibid*). LeCompre & Preissle (1993) prefer the term criterion-based sampling, because qualitative researchers choose certain criteria in advance of their study on which the selection of a sample is based. In purposive sampling generalisability is less important than the collection of rich data and understanding of the ideas of the people chosen for the sample (Holloway, *ibid*.). Holloway says that in purposive sampling researchers seek to gain as much knowledge as possible about the context, the person or other sampling units of analysis. This means that the sampling is not fixed in advance but is an ongoing process guided by emerging ideas and observations.

In-depth interviews and immersion in a culture make large sample unnecessary, particularly as qualitative researchers rarely seek to generalise. Maxwell (1996) adds that only when qualitative researchers aim for generalisability, might random sampling be used. Therefore, as qualitative researchers do not know the number in the sample before the research starts, the sample may change in size and type during the research. Also, Sandelowski (1995) recommends that researchers should use their judgement about the numbers in the sample.

5.3.5. The survey sample

A nation-wide electronic questionnaire survey was conducted among 400 UK local authorities. The target sample consisted of three sub-samples, drawn as follows:

- A stratified random sample of 266 small, medium and large authorities was drawn from the Municipal Year Book 1999/2000 Database to whom Questionnaire series I survey was sent (see Appendix B)
- A stratified random sample of (379 including the 266 above) public-sector organizations in local government was drawn from the 1990/2000 Municipal Year book. to whom Questionnaire series II survey was sent (see Appendix C)
- Then, a random sample of 55 *consenting* respondents from the total of 122 officers was selected for follow-up interviews (see Appendix D).

5.3.6. Response rate

Overall response

Overall of a total of 420 questionnaires sent out electronically, 122 were returned in good and usable form. This accounted for about a response rate of 29.0 per cent. In addition nine letters (2.1 per cent) were received giving reasons for non-participation. A further seventeen questionnaires (4.0 per cent) were returned as 'Unknown at this address'. Another twelve (2.9 per cent) returned questionnaires were unusable, rendering a final survey sample of 160

organizations. This breakdown gives an overall response rate of 38.1 per cent, albeit an effective response rate of 29.0 per cent.

Questionnaire series I response

The first version of questionnaires (Appendix B) was designed to elicit a general overview about organisational capacity issues. In this phase, 52 out of 147 purposively selected local authorities responded positively. This was about 35.4 per cent response rate, which was considered adequate for studies of this nature.

Questionnaire series II response

The second version of the questionnaire (see Appendix C) was designed to collect data necessary to assess the attributes of a successful performance-based reward system and to survey the perceptions of local government managers about equity of such an incentive scheme.

This questionnaire was also sent out online and by post to 273 local government CEOs. Of these 70 questionnaires were completed and returned, implying a 25.7 per cent response rate which was also acceptable. 32 of these 70 actually came from the main case studies for which the postal facility was used to send bundles of questionnaires. Most of these also consented for the follow-up interviews. The CEOs from the main case studies recommended some of these other chief officers as having a vast experience in the implementation of PRP schemes. The completed transcripts were analysed using the computer software called Statistical Package for Social Science (SPSS) Version 10.0 to determine the recurring themes.

5.3.7. Data Collection

The research utilised a combination of both qualitative and quantitative techniques in the collection and analysis of data, respectively. The Senior Managers and Directors (see Appendix D) responsible for HRM were consulted and interviewed about their perception on debatable and controversial issues surrounding the research problem. To supplement the

selected four main case studies, the survey was carried out using two complementary series of questionnaires.

The first version of the questionnaire (see Appendix B) was designed to elicit data necessary to address issues of capacity and the practice of performance management principles in general. The following questions provided the study with the pivotal guidance during the data collection process:

- (i) What organisational capacity do local authorities need in order to undertake strategic direction in bringing about in-house organisational cultural change commensurate with performance management and PRP schemes?
- (ii) What conditions are in place in the British local government system to sustain the effective implementation of PRP given the qualitative nature of performance in the sector?
- (iii) What is the degree of goodness of fit of performance measurement and accountability processes in the British local government system? To what extent are PBIs acceptable in these councils?
- (iv) What characteristics constitute a successful performance-pay incentive scheme for public sector managers in local authorities?
- (v) What lessons can developing countries like Tanzania learn from the British experience in operating performance-based incentive schemes within the framework of performance management model?

In each of the local authorities studied at least one contact (a 'focus front-liner') was established as a link to other targeted respondents within the council. In four cases, the respective Chief Executives recommended these key front-liners, while in one case study the front-liner was the Borough Director herself. With the help of the focus front-liners and a topic guide, a combination of research instruments was used to collect data from the field. These included among others, semi-structured interviews, observations, discussions with knowledgeable personalities, and source documents.

The main purpose of the case studies was to obtain in-depth understanding of the controversies surrounding the introduction and implementation of performance-based incentives and reward systems, which are discussed in the HRM literature (refer s.4.1 & 4.2 of Chapter 4

above). In contrast, the survey questionnaires were intended to obtain a broader picture of three sets of issues identified as the variables in the hypothesis of this study (see s.5.1 above). First, was to survey the organisational capacity variable of British local authorities to implement PM practices. Secondly, was to examine the degree of ‘goodness of fit’ or the logistics and objectivity of the process of measuring performance and accountability in the British local government system in relation to implementation of PBIs and reward systems. Thirdly, was to survey the perception of local government managers about equity and attributes of successful PBIs and reward system in general.

5.4. Analytical Framework Strategy

The analytical framework strategy for this study is based on two important theorems. The first is the acknowledgement of the role of theories of motivation in the design and implementation of a policy for rewarding and compensating employees and the second is the application of the PM model as a research tool. The next two subsections attempt to outline how these theorems are going to facilitate the analysis of research findings in response to the issues and questions already raised in the literature review and summarised in s.4.4. above.

5.4.1. The PM model as a tool for research analytical framework

The PM model can be used as a research tool for the purpose of eliciting data from the field. The thesis argues that there are five main sets of issues that need to be addressed in developing a framework for managing organisational performance that are represented as a set of questions in a PM context.¹¹ The questions are phrased in a normative tone, reflecting a managerial perspective, but can easily be re-phrased descriptively for use as a research tool.

¹¹ These questions represent a development of the analytical framework approach first put forward in Otley (1987) and utilised and developed by Fitzgerald and Moon (1996).

The questions themselves appear to remain constant, but organisations need to continually develop new answers to them. This is because the context in which organisations are set is constantly changing and new strategies need to be developed to cope with new operating environments.

The questions are linked to the five dimensions of the PM model as in Table 5.1 below: The first dimension questions in the PM framework are designed to explore and elucidate organisational aims and objectives¹², and the mechanisms that have been put in place to measure and monitor goal attainment

Table 5.1: Research issues in a 5-DPM model analytical framework¹³

Dimensions	Focus of Study	The 5-DPM model Research Questions
1	Objectives	(a) How are the key objectives that are central to the organisation's overall future success determined? (b) How does the council go about evaluating the achievement for each of these objectives?
2	Strategies and plans	(c) What strategies and plans has the organisation adopted and what are the processes and activities that it has decided will be required for it to successfully implement these? (d) How does it assess and measure the performance and accountability of these activities?
3	Targets	(e) What level of performance does the organisation need to achieve in a given time frame in each of the areas defined in the above two dimensions? (f) What level of resourcing is thought necessary to allow such achievement? (g) How does the council incorporate the consumers' priorities and preferences at this level? (h) How does it go about objectively setting and measuring appropriate performance targets for them?
4	Rewards	(i) What rewards and incentives ¹⁴ do managers (and other employees) gain by achieving these performance targets (or, conversely, what penalties do they suffer by failing to achieve them)? (j) What technique does the council use to link rewards (if any) to achievement of performance level? (k) How does this approach apprehend equitable distribution of these

¹² No assumption is made about the nature of these goals. The framework is quite compatible with a stakeholder perspective, which views organisations as seeking to meet the, potentially conflicting, requirements of different stakeholders.

¹³ The PM model is used as a research analytical framework for a study of this nature for the second time after Kloot and Martin (op. cit.).

¹⁴ Rewards and incentives should be understood in the widest possible sense, and not be restricted to just short-term financial rewards, important though these may well be.

		rewards across the board in order to sustain teamwork spirit amongst all employees? (l) What are the characteristics of a successful incentive and reward system?
5	Feedback	(m) What are the information-flows (feedback and feed-forward loops) that are necessary to enable the organisation to learn from its experience, and to adapt its current behaviour in the light of that experience? (n) Does management accounting information system has any role to play in this regard at all?

NB. See Appendices A & B for a List of specific research questions “Phase One” and “Phase Two”

The second dimension questions are designed to explore and document the connections the organisation has made between its strategic intent (primary objectives) and the means (secondary objectives) by which it hopes to realize them.

The third dimension questions raise issues of both effectiveness (to what extent are objectives expected to be achieved in a given time-frame?) and efficiency (what level of resourcing is thought necessary to allow such achievement?). Motivation and incentives are the focus of the fourth dimension questions. These seek to examine the consequences that follow from the achievement (or the failure to achieve) the performance targets, which have been set. Information is the necessary final ingredient to complete the performance management framework for control process. Therefore, the fifth dimension question focuses on the role of performance information in managing performance in PSOs. The next subsections attempt to present a summarised account of the five key research issues for the purpose of this study.

5.4.1. Organisational aims and objectives

More recently, literature on the role of strategy as a specific contingent variable has emerged [see, for example Langfield-Smith (1997)]. This suggests that different types of organisational plans and strategies will tend to cause different performance management control systems configurations. However, the empirical studies conducted to date have not yielded any firm conclusions about the nature of the most appropriate connections between

strategies and performance management controls (Otley, 1999).

In essence, strategies can be seen as the means by which an organisation has decided that its aims can be achieved. It is beyond the scope of this study to elaborate upon the procedures neither by which strategies are developed, nor on the relative roles of espoused (top-down) and emergent (bottom-up) strategies [see Mintzberg, op. cit.]. Rather, it takes as given the organisation's current strategies and seeks to investigate the means by which their achievement is pursued and monitored. The formal PM system is seen as a major mechanism that can be used to make explicit the set of means-end relationships that the organization has developed as the methods it will use to implement its strategic intent.

5.4.2. Organisational strategic intent and the means to realize them

In practice, it is anticipated that the process of exploring issues raised by this question will often lead to senior managers feeling the need to elaborate their strategies more precisely in order to maintain a good 'fit' between objectives, plans, performance measures and rewards. Strategies involve a time frame as a key component. Many business strategies are designed to effect 'improvement', often driven by competitive pressures (Otley, 1999). Even in public sector, the continual need to justify the use of resources produces similar pressures for improvement and efficiency.

5.4.3. Organisational effectiveness and efficiency

There are a host of approaches and techniques currently deployed in practice that have the aim of increasing goal attainment and reducing the consumption of resources, such as continuous improvement, benchmarking, concurrent engineering and target-costing (ibid: 367). Such approaches not only involve the technical specification of goals, which are required to be attained (in many cases, developed from roots which go back to the Scientific Management movement), but are also necessarily concerned with issues of motivation and employee

behaviour [see Merchant and Manzoni (1989) for one example of such a study]. In popular management theory, goal-setting and performance measurement play a pivotal role, expressed in phrases, such as ‘what gets measured, gets done’¹⁵.

Drawing on theories of motivation, both the process of goal-setting (e.g. employee involvement and participation) and the content and nature of specific goals (e.g. ‘stretch’ targets; difficult but attainable goals) have been studied in considerable detail in the psychological literature (Anthony, 1965). In addition, the encouragement of employees to suggest improvements to production processes or product design, driven by the imperative of improvement, has also received attention, with Japanese practices being particularly prominent (Austin and Gittell, 1999).

5.4.4. Question of motivation and incentives

Motivation and incentives are issues that are clearly related to the structures and processes of measuring performance and accountability that exist within the organisation, and even to the overall governance procedures of the total organisation. Increasingly, (in the U.K.) these consequences may involve explicit financial rewards (in terms of salary increases or one-off bonus payments), but will also involve less tangible consequences, such as recognition, status and reputation. Although there is a developing literature on the impact of payment schemes on employee and managerial performance, this is dominated by U.S.-based work, which may not transfer easily across cultures.¹⁶

¹⁵ However, it should not be assumed that explicit systems of performance measurement based on common-sense design principles are always effective. See, for example, Austin and Gittell (1999) for some interesting examples of counter-intuitive outcomes. They suggest two very different categories of models of performance measurement, one based on compliance, the other based on ambiguity.

¹⁶ For example, the contrast between the openness about pay in the U.S. and the secrecy which exists in the UK may cause significantly different reactions to performance-related rewards.

Moreover, in practice, the design of payment systems is very much the province of the personnel or human resources function in most organisations, and these systems may not be well-articulated with the extant performance measurement systems. In any case, the intent of the question is to enable such connections as do exist to be documented and, ultimately, for their motivational impact to be assessed and evaluated.

5.4.5. Question of performance information flows

In its traditional feedback form, information on actual performance is compared with pre-set targets, standards, and deviations used to indicate the need for corrective action. In addition, feed-forward (or planning) information may be used to predict the need for corrective action before adverse consequences are observed. In both cases, there is a role for immediate corrective action to rectify the perceived problem, but also for double-loop learning to take place to improve the system in such a way that errors do not recur in the same way.

Such uses of information are universal in the contemporary organisation, ranging from quality control charts to financial budgets, and from improved training to the 'learning organisation'. Nor should the less formal uses of information be neglected; organisational cultures and values form the basis of approving and disapproving feedback signals of many types.

A final key issue in documenting such feedback loops is to distinguish the different timescales and learning processes involved. These timescales may range from the instantaneous (in real-time production control systems) through hours, days, weeks, months, quarters, years and beyond. The learning processes range from simple corrective action through to the revision of a corporate strategy if it becomes apparent that the current strategy is proving ineffective.

In general terms, answers to all these issues are required in the design and construction of organisational performance planning and control systems. The first question defines acceptable

outcomes and results (often solely in profit or cost-terms); the second is concerned with the development of plans by which the results are expected to be delivered; and the third is concerned with the performance standards which can be expected.

A budget can only be drawn up when quantified answers to all three questions are developed. However, the questions are not restricted to just financial measures and procedures. They may include many of the managerial processes that operate within the organisation and cross the functional divisions that may exist. Many of the measurements involved may be non-financial (e.g. production process measures, such as defect rates and cycle time; customer service measures, such as on-time delivery statistics, etc.), or qualitative (e.g. measures of employee morale, customer satisfaction and service modernisation).

The study by Coates *et al.* (1992) gives many examples of the wide variety of measures that are used by companies in different countries. Finally, some aspects of performance, which are believed to be important, may not even be measured, perhaps because the level of measurement available is inadequate or distorts the process being measured (e.g. employee attitudes, customer preferences, R&D creativity).

The framework of questions should not be taken to imply that precise quantitative measurement and defined target-setting procedures are universally desirable; it provides, first and foremost, a framework within which the full range of extant practices may be described, perhaps as an antecedent to attempting to evaluate their effectiveness.

5.5. Conclusion

Having reviewed the literature in Part II, this chapter has developed an appropriate research design and analytical framework based on the PM model to enable the examination of the research issues spelt out in sections 1.3, s.4.4 and s.5.4.above in light of the main

argument of the study as stated in ss.1.2.2 and 5.1 above. The study has adopted the ‘Survey within Case Study’ approach to examine the research problem. Field studies and interviews during case studies provide richer data than can be gained from survey research, and can explore causal effects more closely.

The study has adopted largely a qualitative approach in the collection of both primary and secondary data. A combination of qualitative and quantitative research techniques have been used to collate and synthesise the evidence gathered from the field. Quantitative techniques have also been used to collate responses from the field based on the Statistical Package for Social Science (SPSS) Version 10.0 Programme. A variety of primary evidence has been gathered from the survey questionnaires, follow-up interviews & discussions, the Internet, field observations, desk research and other secondary sources of research instruments. The main units of analysis or respondents (See Appendix D) are the British local government managers.

Overall the thesis has developed a theoretical justification for the research issues addressed in this study and has presented them in this chapter as a strategic framework designed to simplify their analysis. Finally, as a contribution to knowledge the framework for analysing and interpreting the evidence has been based on a multi-theoretical approach. This means that the research questions have been developed in light of the five dimensions of the PM framework. These questions are then examined and analysed in light of a combination of motivational theorems. The research is conducted at managerial level to gain a senior management perspective of the issues being investigated. Part IV below presents the data collection and analysis of research findings in light of the research methodology developed in this chapter. Finally, it is important to take note that most of interviewees and respondents to the questionnaires preferred anonymity. Therefore, for reasons of confidentiality references for the quotes as presented in next three chapters will not disclose specific names of individuals

or their authorities. Instead such quotes will be distinguished in terms of seniority level or status of particular interviewees or respondents.

Part IV

Data Collection & Analysis

Chapter Six

CASE 1: SURVEY ON CAPACITY ISSUES AND PRP IN BRITISH LAs

6.0. Introduction: Background to pay-reforms

The literature review in Chapter Three and Four argued that in recent years there has been a widespread adoption of market-type approaches to managing performance in PSOs. This trend has raised an academic debate amongst scholars not only about the ‘goodness of fit’ of these practices as transposed from the private sector but also, the degree of organisational culture present on the ground to support their implementation.

This chapter examines and analyses the practice of strategic approach to managing performance in British local authorities. The main questions guiding this examination are:

- (a) What organisational capacity do local authorities need in order to undertake strategic direction in bringing about in-house organisational cultural change commensurate with performance management and PRP schemes?
- (b) What necessary conditions are needed to be in place prior to installing a performance management system and performance-pay reward system?

The chapter is organised into two main sections. First, it examines the background and organisational framework of British local authorities within which these PM and PRP schemes operate. The main focus is on the emergence of pay reforms in the local government system and the purposes for which they are operated. Secondly, the Chapter presents research findings from interviews and questionnaire surveys. The focus of the interviews is about the issue of organisational capacity to implement private sector-oriented managerial practices with particular reference to PM and the role of performance-pay incentive schemes. Please note that where applicable for reasons of confidentiality references for the quotes from interviews etc will not disclose specific names of individuals or their authorities.

6.1. The emergence of Pay Reforms in UK's public service

(a) Change in organisation and management

Since the 1970s the scope, organisations and management of the public services in UK have changed radically. Political forces, spearheaded by global economic, social and technological factors have been the drivers of these changes. The expansion of most public services was fuelled by the growing expectations of the electorate and their demands for more public spending on welfare services. This led to increase in public employment and rises in taxation and public borrowing to finance this expenditure.

(b) Public-private partnership

With governments unable to manage the economy successfully or to curb public expenditure, the Government was forced to borrow from the IMF and to accept 'wholesale' the conditions attached to the loan. Cutting down public spending was one of the conditions. From then onwards, the ideas of the government assuming new roles emerged. The need arose to delegate the responsibilities of the provision of public services and to work in partnership with the private sector and voluntary agencies. The objective was to chart out a strategy for the government to be more responsive to public needs and wants. New institutional arrangements were necessary in terms of capacity, managerial skills, and attitudes. There was a need to redress the way performance was being managed in the public sector generally in order to cope with public demands for technological advancements and competition uproar.

(c) New managerial practices

This trend resulted into the proliferations of market-oriented practices across public sector organisations. Public managers were recruited from the private sector. Private ownership and entrepreneurial capitalism were held to be the foundations upon which a successful market

economy and a healthy liberal democracy should be built. This new era of public management enforced public service competition through compulsory competitive tendering (CCT), market testing and the creation of 'internal' markets. Along with these initiatives private sector management techniques such as Performance Management and PRP schemes were introduced into public services. Not only in UK but also other OECD member countries were reforming their services because of concerns about economic performance, the changing needs and demands of citizens and institutions, and a massive decline in confidence in government. Discussions with knowledgeable personalities revealed that, initially, many countries have been introducing managerial reforms primarily as a strategic process to improve the efficiency and effectiveness of the public sector. That is, transforming a managerial culture and values from the traditional style of bureaucratic processes, rules and commands into a new management era.

(d) Client-focused approach

The new approach to public management focuses on the results, rather than on the inputs, in terms of Value for Money (VFM) or Best Value. It is client-oriented and emphasises on accountability measures in terms of the three E's of economy, efficiency and effectiveness. Foremost, it is characterised by management by objectives (MBO) and performance measurement, the use of market-type techniques in place of centralised authority. This means shifting the state from being a monopoly provider of traditional public services and goods to being a regulator and facilitator, and creating a mixed economy of welfare comprising private, voluntary and public agencies. Not all contemporary public policies were successful. Some were modified or abandoned. But the overall effect was a radical change in the scope, size and role of the state. This has had significant consequences for the ways in which public services are financed, organised and managed today.

(e) The cultural incompatibility

The UK local government system was in the forefront to seeing these changes through. Her traditional culture and style of managing performance was compelled to interact with these 'New Public Management' practices. Then, performance management and PRP schemes in UK LGS were introduced from mid 1980s onwards. Initially most councils were rather sceptical about introducing market-type managerial practices for the fear that the change would be incompatible with the culture and values of local governments. However, with time many authorities were either operating or planning to introduce the schemes, while others were abandoning them. In an attempt to investigate why some authorities were fazing them out, no straight answers were readily from some of the respondents.

However, one important finding is that PRP schemes in UK local authorities were introduced on experimental basis and in most cases such schemes were applied only to senior managerial staff. During the implementation, complaints have been consistently raised mainly from employees who have not been covered by the schemes. This suggests that introducing discriminatory PRP schemes is unlikely to achieve its intended objectives. This finding suggests that in order to be successful a PRP scheme should cover all employees in an organisation.

6.2. Capacity to implement managerial changes

The key issue now is about the capacity of local authorities to undertake a strategic direction in bringing about in-house cultural change necessary for implementing performance-pay incentive schemes transposed from the private sector. For the purpose of this study, capacity refers to the *conditions, organisational structures processes* put in place in the local government system to allow effective implementation of performance-pay reward structures. The main assumption is

that rewarding performance is one of the key dimensions of a PM.

In order to assess the capacity of British local governments to implement private sector oriented PM techniques a topic guide was used (see Appendix B). In particular, the guide focussed on the capacity of local authorities to apply strategic management techniques in managing organisational change. The following sections present responses to questions examining this type of capacity issues. Some these responses are presented in both tabular and graphical forms and comments on some of them are summarised in s.6.9 below.

6.3. The Issue of Strategic Approach

The adoption of strategic approach to managing performance is felt to be the stepping-stone in the process of assessing the issue of capacity of British local authorities to implement private sector based managerial reforms. Capacity is about ‘the ability to do something properly’ (Larbi, op. cit.). Therefore, a vision or mission statement is an important signpost of the existence of this capacity. The survey questionnaire began by finding out if local authorities had ‘a statement of corporate objective’ or ‘mission statement’.

6.3.1. The existence and origin of mission statement

To assess this first indicator of capacity issues, a cross-section of local government managers was asked the question “*Does your authority have a corporate objective (mission) statement?*” 98 per cent of these local government managers agreed that they do, and only one respondent for some reason declined to participate. This response rate was significant enough to assert that all councils have a corporate objectives statement in their policy documents.

Essentially, the origin of corporate objectives suggests the nature of priorities that are entrenched within such statements. Therefore, the study was also prompted to find out whether these objectives are internally developed or are imposed from above. The managers were

asked how the corporate objectives statement was developed and the tabular and graphical responses to these questions are presented in Table 6.3.1, 6.3.2 and 6.3.3 below.

Table 6.3.1: If authority has Corporate Objectives Statement, does management internally develop them?

Type of response	Frequency	Percent
Too busy to respond	1	1.9
No	8	15.4
Yes	43	82.7
Total	52	100.0

The graphical presentation of Table 6.3.1 is as follows:

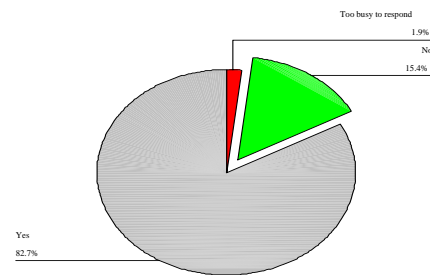
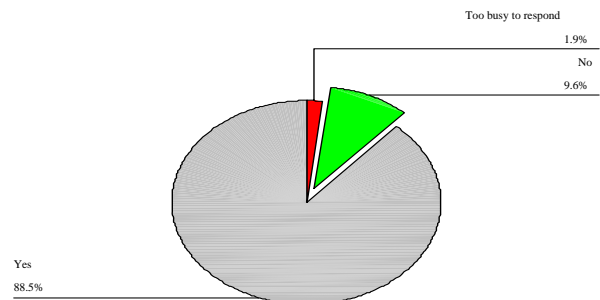


Table 6.3.2: If authorities have corporate objectives statement, do councillors politically determine them?

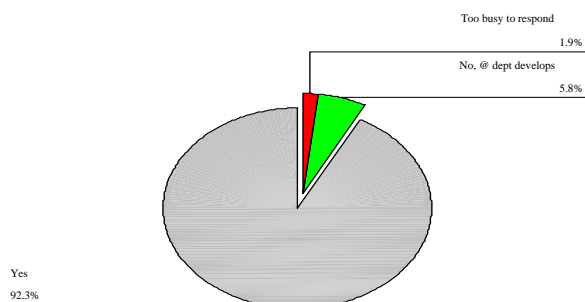
Type of response	Frequency	Percent
Too busy to respond	1	1.9
No	5	9.6
Yes	46	88.5
Total	52	100.0



The study further examined whether or not these corporate objectives are then broken down into manageable departmental or functional objectives. Therefore, the managers were asked this question and their responses are presented below.

Table 6.3.3: Are corporate objectives broken down into departmental objectives?

Type of response	Frequency	Percent
Too busy to respond	1	1.9
No, @ dept develops own objectives	3	5.8
Yes	48	92.3
Total	52	100.0



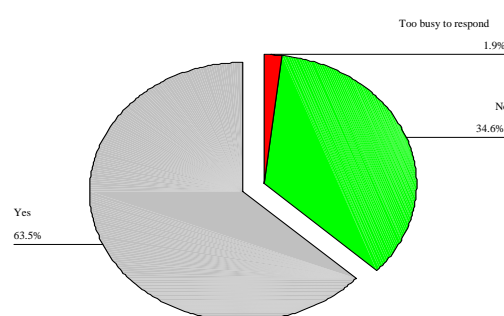
The comparative analyses of these responses are presented later in the chapter.

6.3.2. Articulation of all about change

The second dimension of organisational capacity to implement managerial changes examined is about the articulation of all employees and members of the reasons for introducing change and the communication of the same message across the board. Therefore, the study asked local government managers how these objectives are communicated to all employees. Tabular and graphical presentations of the responses to these questions are presented below.

Table 6.3.4: Are the objectives communicated to employees through public means such as meetings, notice boards, news bulletins etc?

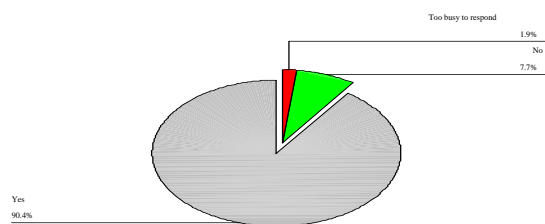
Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
No	18	34.6	36.5
Yes	33	63.5	100.0
Total	52	100.0	



This response indicates that there is a significantly high degree of effort made by local authorities to communicate organisational objectives to their employees. It is important that employees are made aware of what the corporate objectives are and what is expected of them to achieve these objectives. Public approaches to communicating these objectives are most ideal as they are more inclusive and transparent. They also give other interested members of the public an opportunity to know what is going on within their councils and how much priority is given to their primary needs.

Table 6.3.5: Are the objectives communicated to employees through their line managers?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
No	4	7.7	9.6
Yes	47	90.4	100.0
Total	52	100.0	



The verdict on this question is that about 90% of the respondents are opposed to the rather ‘closed approach’ to communicating council objectives to their employees. This confirms the fact that an alternative public approach is more practical and open rather than communicating through line managers. Another important advantage of the public means approach communication is that consistence and reporting standards are maintained across the board.

Table 6.3.6: Are the objectives communicated to employees through informal means?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
Yes	8	15.4	17.3
No	43	82.7	100.0
Total	52	100.0	

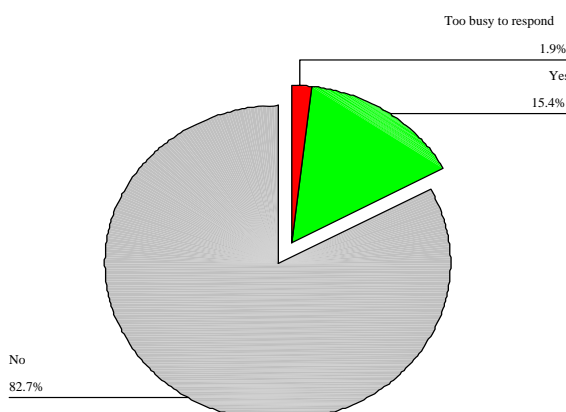


Table 6.3.7: Are the key objectives not communicated to employees at all?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
Yes	2	3.8	5.8
No	18	34.6	40.4
not applicable	31	59.6	100.0
Total	52	100.0	

This question appeared to be irrelevant to the respondents as it did not apply to the majority of them. However, this response was important for research because it signifies the degree of relevance attached to the importance of communicating key objectives of councils to employees. Finally, based on the evidence presented above, we may argue that that formal public means and openness approach to communication of the key organisational objectives to employees is commonplace in British local authorities. The existence of a transparent two-way communication between management and employees is a ‘primary indication’ of capacity of the authorities to adopt market-type managerial practices.

6.3.3. Corporate objectives and strategic plans linkage

A strategic approach to managing performance is demonstrated when corporate objectives are linked to an organisation’s long-term plans and individual key accountabilities. To assess this dimension, the respondents were asked whether or not this link exists, and if strategic plans normally do indicate how achievement of these objectives will be evaluated. They were also interviewed to find out if the key objectives are influential to the development of employees’ individual accountabilities or job descriptions. The presentations that follow indicate how the managers responded to questions about linkage between objectives and strategies for achieving them.

Table 6.3.8: Are corporate objectives linked to council strategic plans?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
No	2	3.8	5.8
not applicable	2	3.8	9.6
Yes	47	90.4	100.0
Total	52	100.0	

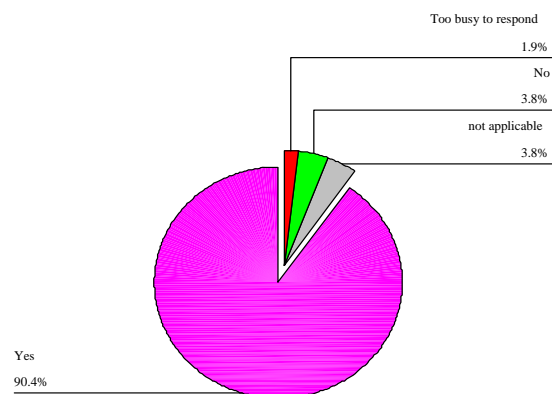


Table 6.3.9: Do strategies and plans indicate how achievement of organisational objectives will be evaluated?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
not applicable	4	7.7	9.6
No	16	30.8	40.4
Yes	31	59.6	100.0
Total	52	100.0	

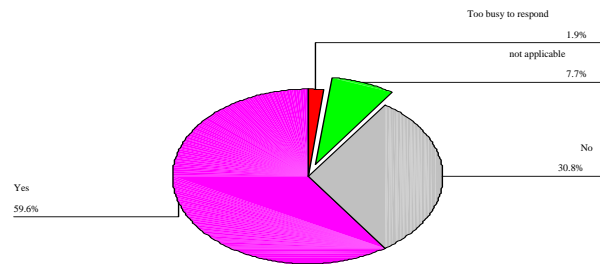


Table 6.3.10: Are key objectives translated into individual job descriptions or targets as a means of achieving them?

Type of response	Frequency	Percent	Cumulative Percent
Too busy	1	1.9	1.9
Both, yes and no	2	3.8	5.8
Not applicable	3	5.8	11.5
No	16	30.8	42.3
Yes	30	57.7	100.0
Total	52	100.0	

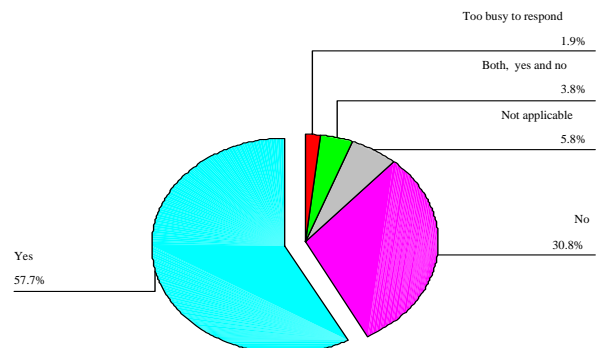
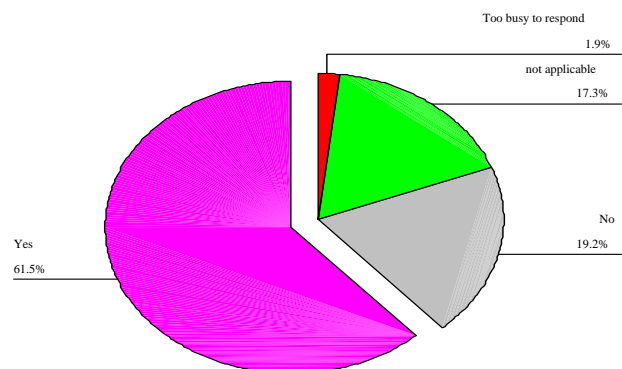


Table 6.3.11: Are key objectives linked to specific measurable individual tasks or accountabilities?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
not applicable	9	17.3	19.2
No	10	19.2	38.5
Yes	32	61.5	100.0
Total	52	100.0	



Please note that texture descriptions and syntheses for these presentations are given in s.6.8 of this chapter.

6.4. Scale and Scope of PMS and PRP Schemes

Supported by empirical studies, an assumption is made that PRP scheme is an important dimension of a PM system (Hughes, op. cit.). Therefore, the existence of PM systems and the implementation of PRP schemes within these systems could suggest that basic conditions are actually in place in British local authorities. Otherwise, they are not.

6.4.1. Existence of the Schemes

One of the dimensions of an effective PM system is to reward performance by linking employees' pay to performance. Respondents were therefore interviewed to find out the scale and scope of PRP schemes within the BLGs. To test this claim, therefore, a cross section of managers randomly selected from the sample frame was interviewed and their responses are presented in graphics and Tables 6.4.1 though Table 6.4.13 inclusive. Table 6.4.1: Does the authority have a Performance Management System (PMS)?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
not applicable	1	1.9	3.8
No	14	26.9	30.8
Yes	36	69.2	100.0
Total	52	100.0	

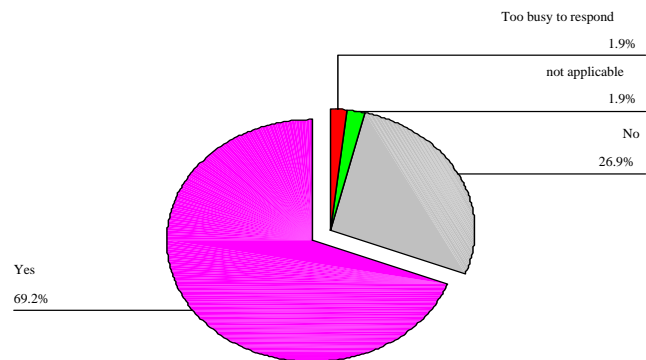


Table 6.4.2: Will the authority retain the existing PMS in future?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
No	1	1.9	3.8
not applicable	14	26.9	30.8
Yes	36	69.2	100.0
Total	52	100.0	

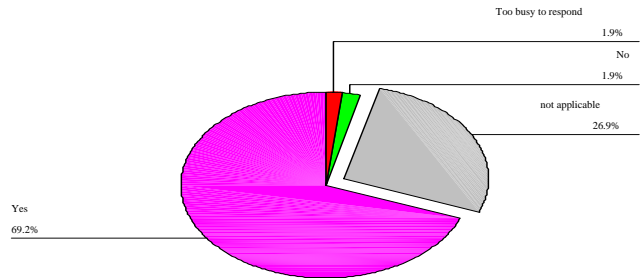


Table 6.4.3: Does the authority plan to introduce PMS in future?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
under review	1	1.9	3.8
No	4	7.7	11.5
Yes	8	15.4	26.9
not applicable	38	73.1	100.0
Total	52	100.0	

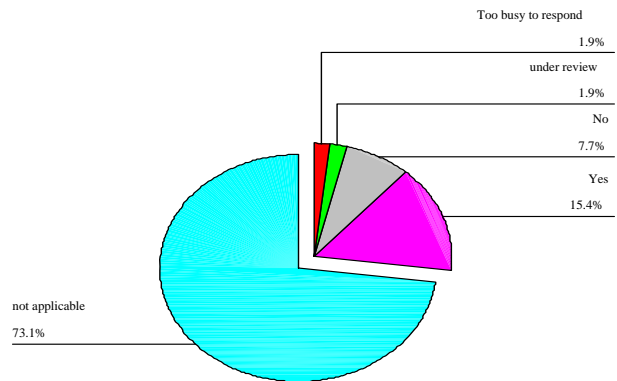


Table 6.4.4: Does the authority operate a Performance Related Scheme (PRP)?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	5	9.6	9.6	11.5
No	46	88.5	88.5	100.0
Total	52	100.0	100.0	

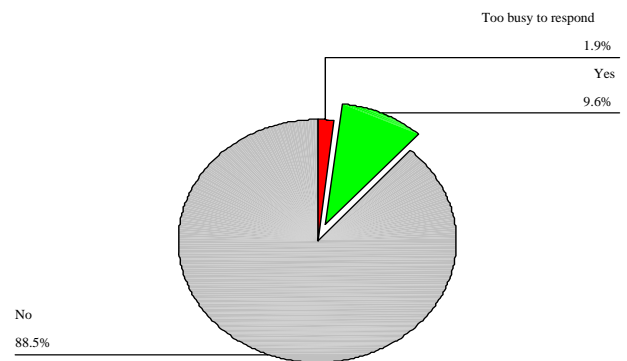


Table 6.4.5: Will the authority retain the existing PRP scheme in future?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
No	1	1.9	3.8
Yes	4	7.7	11.5
not applicable	46	88.5	100.0
Total	52	100.0	

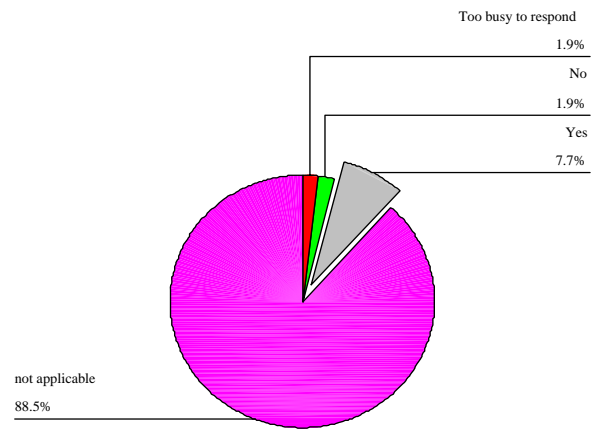
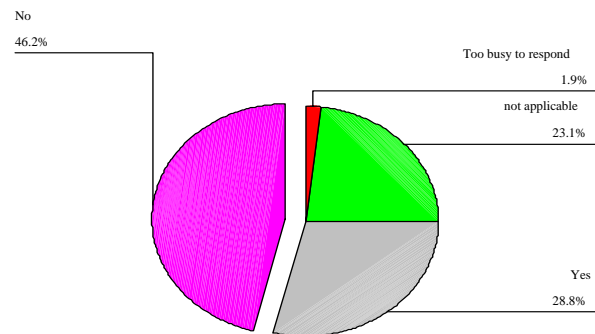


Table 6.4.6: Does the authority have a plan to introduce PRP in future?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
not applicable	12	23.1	25.0
Yes	15	28.8	53.8
No	24	46.2	100.0
Total	52	100.0	



If we compare the responses presented in Table 6.4.6 above to that of Table 6.4.3 we find that there are 15 managers who say that they would introduce PRP in the future. However, only 8 of them agree that they would introduce PMS in future. This difference can be explained by the fact that PRP schemes can be introduced without PMS

Table 6.4.7: Is PRP scheme specifically linked to the system of Performance Management?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
under review	1	1.9	3.8
Yes	6	11.5	15.4
No	6	11.5	26.9
not applicable	38	73.1	100.0
Total	52	100.0	

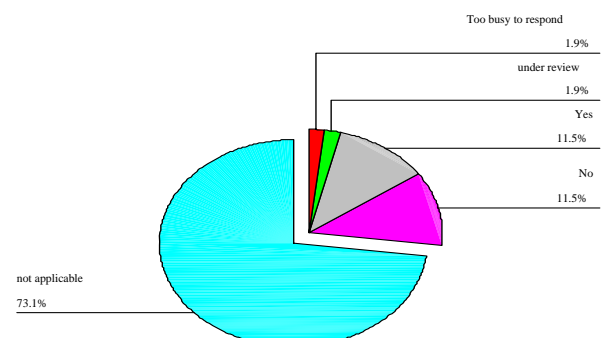
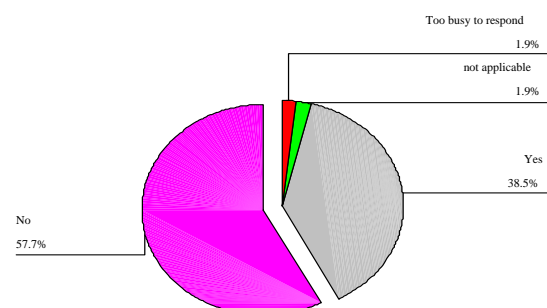


Table 6.4.8: Does the authority operate an incentive scheme other than PRP for the employees?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
not applicable	1	1.9	1.9	3.8
Yes	20	38.5	38.5	42.3
No	30	57.7	57.7	100.0
Total	52	100.0	100.0	



6.4.2. Coverage of the PRP Schemes

It is claimed that PRP is divisive. It is also claimed that this shortcoming is attributable to the fact that the schemes are not normally designed to cover all the employees in an organisation. Therefore, the respondents were asked questions testing this claim. The following tables and pie charts present their responses.

Table 6.4.9: Are all categories of employees covered by the PRP scheme?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	5	9.6	9.6	11.5
No	9	17.3	17.3	28.8
Not applicable	37	71.2	71.2	100.0
Total	52	100.0	100.0	

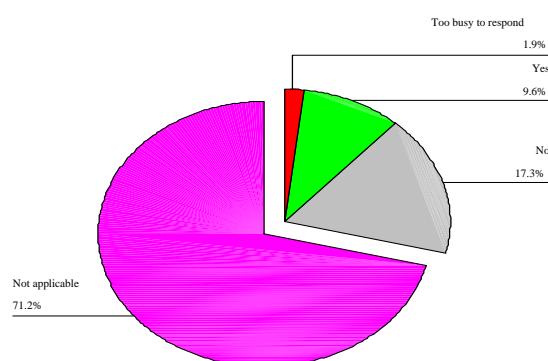


Table 6.4.10: What categories of employees are covered by PRP scheme - all chief officers?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
No	7	13.5	13.5	15.4
Yes	8	15.4	15.4	30.8
not applicable	36	69.2	69.2	100.0
Total	52	100.0	100.0	

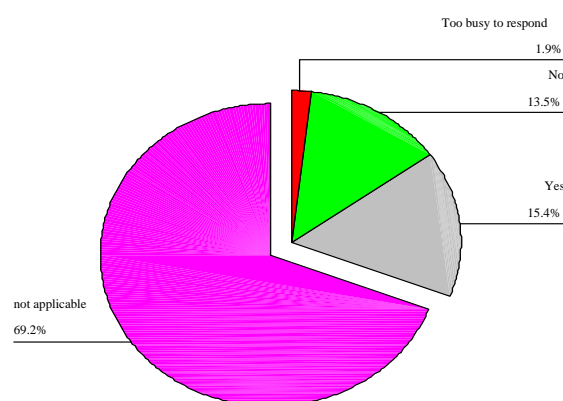


Table 6.4.11: What categories of employees are covered by PRP scheme - Some senior officers?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	7	13.5	13.5	15.4
No	7	13.5	13.5	28.8
not applicable	37	71.2	71.2	100.0
Total	52	100.0	100.0	

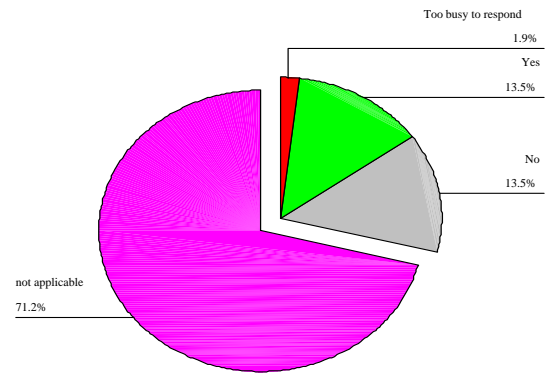


Table 6.4.12: What categories of employees are covered by PRP scheme - Manual employees?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	3	5.8	5.8	7.7
No	11	21.2	21.2	28.8
not applicable	37	71.2	71.2	100.0
Total	52	100.0	100.0	

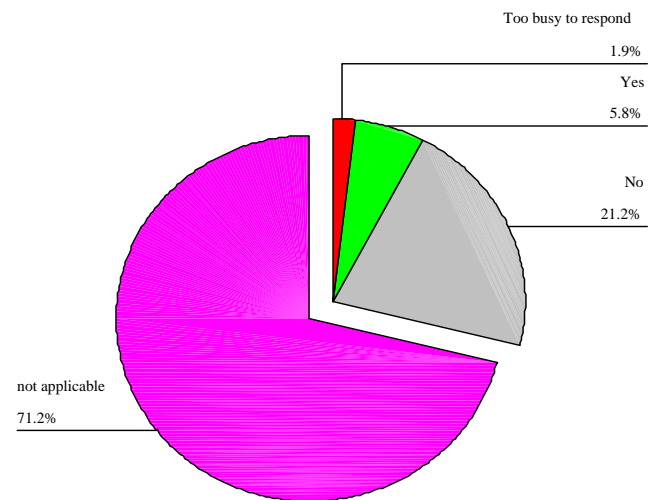
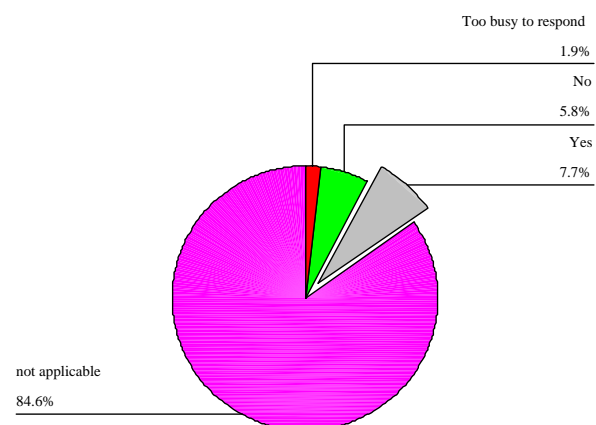


Table 6.4.13: What categories of employees are covered by PRP scheme - None of the above, please specify?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
No	3	5.8	5.8	7.7
Yes	4	7.7	7.7	15.4
not applicable	44	84.6	84.6	100.0
Total	52	100.0	100.0	



6.5. Consultations for Setting Performance Targets

Since 1993, all local authorities are required to publish annually in December details of their performance against a set of indicators agreed with the Audit Commission. Having collated and analysed the information from each council, the Commission publishes a set of national performance indicators, allowing authorities and the public to chart out their yearly progresses and compare their performance with others. Performance indicators are publicly available online through the official website of the Audit Commission at (<http://www.audit-commission.gov.uk/ac2/PI>) in a spreadsheet format. To abide by this requirement all British local authorities have performance targets set at the beginning each period. The attainment of these targets is measured using performance indicators, which are either national or local.

This study is interested in the process of developing local rather than national performance targets. Consulting employees during the performance target setting process increases the chances of their achievement. Therefore, the respondents were asked to respond to questions assessing the extent and mode in which these consultations are made. Tabular and graphical responses are presented below.

Table 6.5.1: Are performance targets agreed at higher level and communicated to job holders?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
No	9	17.3	17.3	19.2
Yes	21	40.4	40.4	59.6
not applicable	21	40.4	40.4	100.0
Total	52	100.0	100.0	

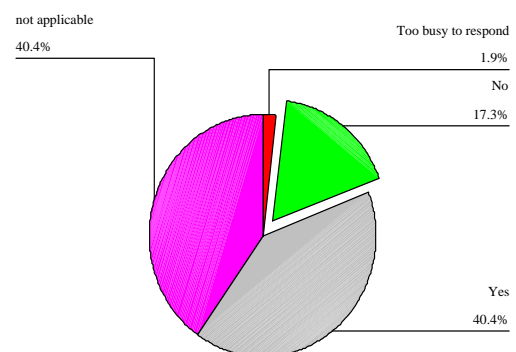


Table 6.5.2: Are performance targets arrived at after discussions and consultations with job holders?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
No	14	26.9	26.9	28.8
not applicable	14	26.9	26.9	55.8
Yes	23	44.2	44.2	100.0
Total	52	100.0	100.0	

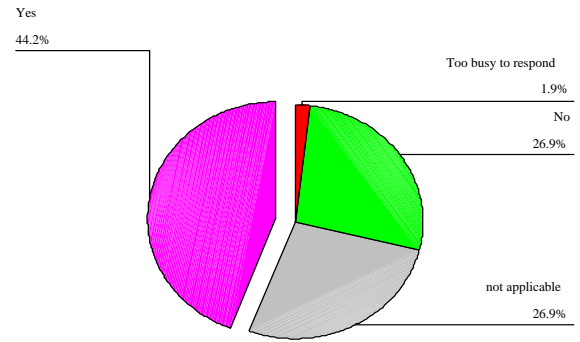


Table 6.5.3: Are performance targets arrived at through other means than above?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	3	5.8	5.8	7.7
No	5	9.6	9.6	17.3
not applicable	43	82.7	82.7	100.0
Total	52	100.0	100.0	

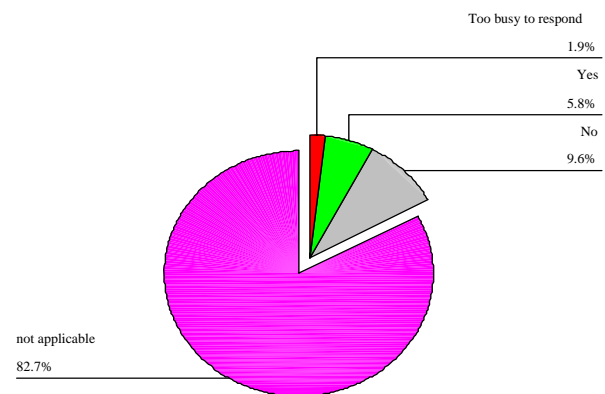
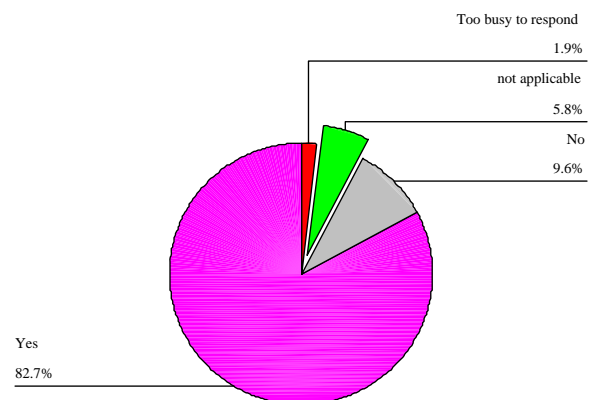


Table 6.5.4: Does every employee have a written copy of his/her job description (responsibilities/accountabilities)?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
Not applicable	3	5.8	7.7
No	5	9.6	17.3
Yes	43	82.7	100.0
Total	52	100.0	



6.6. Role of Management Accounting Information System

The core dimensions of the PM model, as illustrated in Figure 3.1 in Chapter Three in this thesis, include all the processes of performance planning, target setting, performance contracting, performance evaluation, rewarding performance and feedforward/feedback loops. The effective functioning and co-ordination of these dimensions depend on, among other things, the extent to which management accounting information system (MAS) is proactive. Therefore, the study has sought to understand from local government perspective the role

played by MAS during the various stages of managing performance in the councils.

Table 6.6.1: How important is the role of management accounting data when developing corporate objectives?

	Freq	%	Cum (%)
Too busy	4	7.7	7.7
very important	5	9.6	17.3
Not important	7	13.5	30.8
mostly important	8	15.4	46.2
not applicable	8	15.4	61.5
least important	10	19.2	80.8
important	10	19.2	100.0
Total	52	100.0	

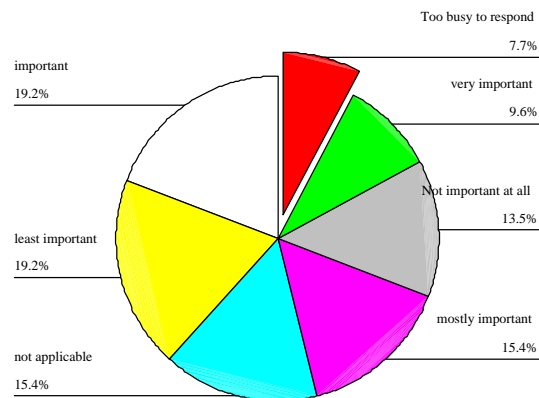


Table 6.6.2: How important is the role of management accounting data when developing departmental objectives?

	Freq.	%	Cum (%)
Too busy	1	1.9	1.9
very important	6	11.5	13.5
Not important	7	13.5	26.9
Important	7	13.5	40.4
not applic.	8	15.4	55.8
mostly important	10	19.2	75.0
Least important	13	25.0	100.0
Total	52	100.0	

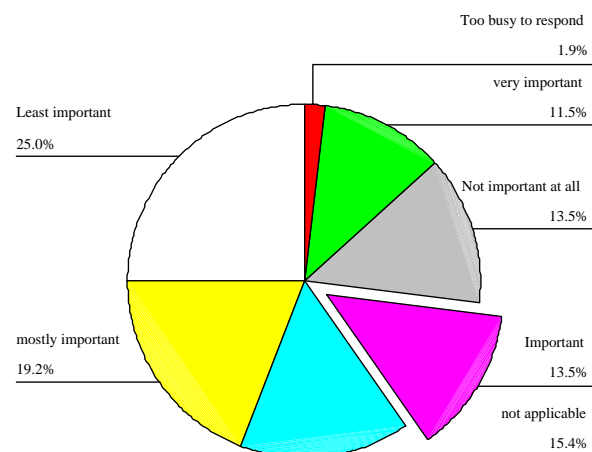


Table 6.6.3: How important is the role of management accounting data when evaluating performance against each of the corporate and departmental objectives?

	Freq.	%	Cum (%)
Too busy	1	1.9	1.9
very important	5	9.6	11.5
not applicable	7	13.5	25.0
Not important at all	8	15.4	40.4
important	9	17.3	57.7
mostly important	9	17.3	75.0
least important	13	25.0	100.0
Total	52	100.0	

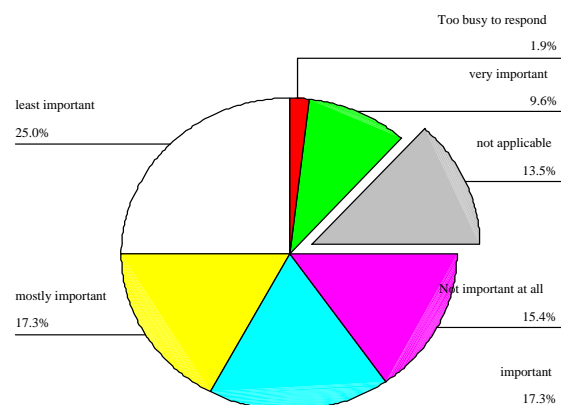


Table 6.6.4: How important is the role of management accounting data when developing individual performance indicators?

	Freq	%	Valid Percent	Cum Percent
Too busy to respond	1	1.9	1.9	1.9
very important	2	3.8	3.8	5.8
not applicable	8	15.4	15.4	21.2
important	9	17.3	17.3	38.5
mostly important	9	17.3	17.3	55.8
least important	11	21.2	21.2	76.9
not important at all	12	23.1	23.1	100.0
Total	52	100.0	100.0	

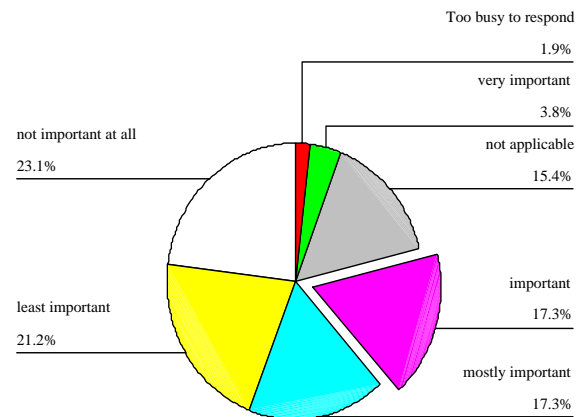


Table 6.6.5: How important is the role of management accounting data when monitoring achievement of performance targets?

	Freq	%	Cum%
Too busy to respond	1	1.9	1.9
very important	4	7.7	9.6
important	7	13.5	23.1
mostly important	8	15.4	38.5
not applicable	8	15.4	53.8
not important at all	12	23.1	76.9
least important	12	23.1	100.0
Total	52	100.0	

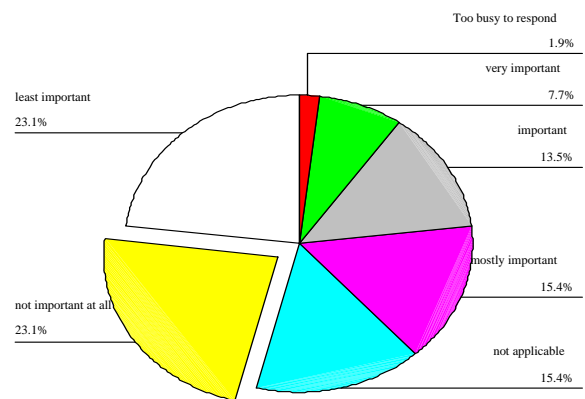


Table 6.6.6: How important is the role of management accounting data when decisions are made about individual incentives and reward structures for employees?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	3	5.8	5.8	5.8
very important	3	5.8	5.8	11.5
mostly important	6	11.5	11.5	23.1
important	7	13.5	13.5	36.5
least important	10	19.2	19.2	55.8
not applicable	10	19.2	19.2	75.0
not important at all	13	25.0	25.0	100.0
Total	52	100.0	100.0	

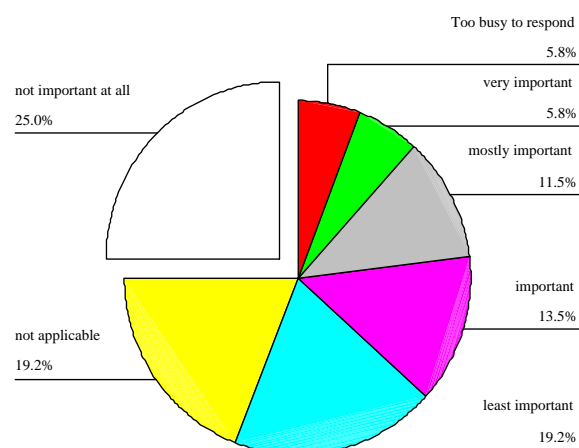
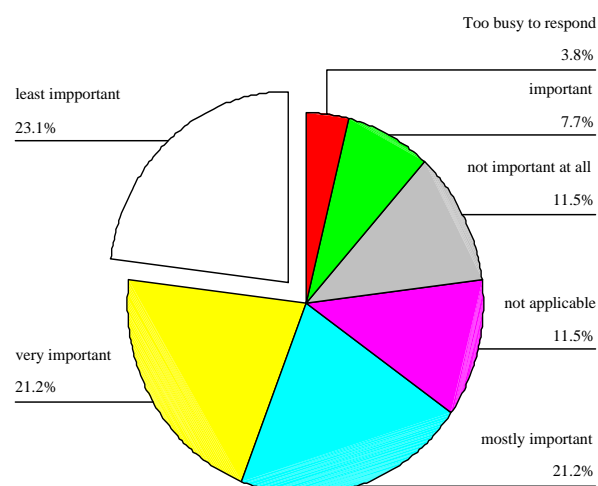


Table 6.6.7: How important for this authority is the management accounting information system?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	2	3.8	3.8	3.8
important	4	7.7	7.7	11.5
not important at all	6	11.5	11.5	23.1
not applicable	6	11.5	11.5	34.6
mostly important	11	21.2	21.2	55.8
very important	11	21.2	21.2	76.9
least important	12	23.1	23.1	100.0
Total	52	100.0	100.0	



6.7. Significance of Quantitative and Qualitative data

Finally, the study was interested in understanding how qualitative and quantitative performance data were crucial for managing performance in a public sector environment in terms of planning, control and decision-making processes. Responses to questions relating to this issue are presented in the following tables and pie charts.

Table 6.7.1: How important are qualitative performance targets for this council?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	2	3.8	3.8	3.8
least important	2	3.8	3.8	7.7
important	4	7.7	7.7	15.4
not applicable	7	13.5	13.5	28.8
very important	18	34.6	34.6	63.5
mostly important	19	36.5	36.5	100.0
Total	52	100.0	100.0	

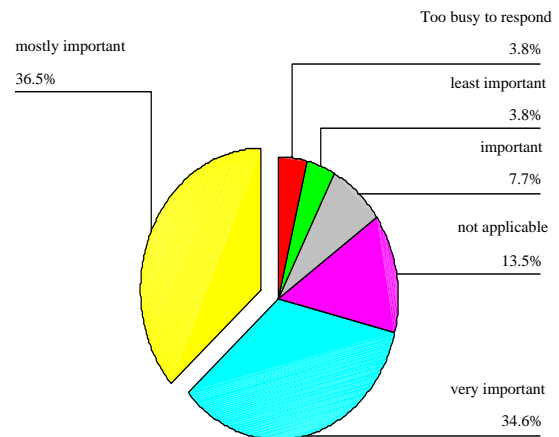
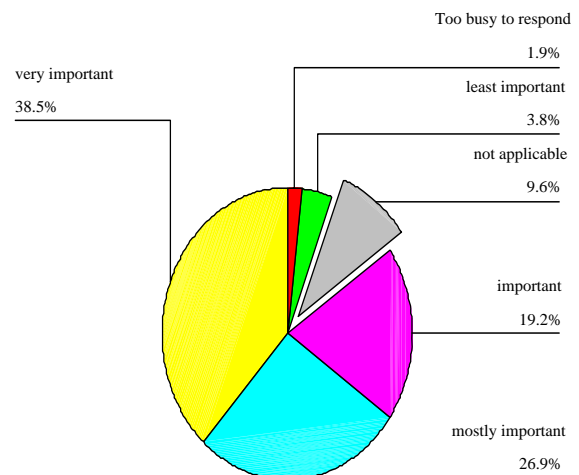


Table 6.7.2: How important are quantitative performance targets for this council?

Type of response	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
least important	2	3.8	3.8	5.8
not applicable	5	9.6	9.6	15.4
important	10	19.2	19.2	34.6
mostly important	14	26.9	26.9	61.5
very important	20	38.5	38.5	100.0
Total	52	100.0	100.0	



6.8. Discussion of key survey findings

The following subsections present a summarised analysis of the findings about capacity issues as examined in this chapter.

6.8.1. Rewarding Performance: A new managerial culture?

In their attempts to create a modern managerialist culture in public services, governments have not only facilitated renewed confidence by managers in their right to manage but

also have created a new 'culture of management.' This has aimed at getting public service managers committed to organisational change and greater efficiency within the limits set by given resources, especially in higher levels of management. Governments have sought to do this by: emphasising management's key role in achieving efficiency; individualising the contracts of service for senior managers; and providing them with reward packages that incorporate market-type 'fringe benefits' including private medical care, life insurance, company leased cars and pension options. Individualised (or personal) renewable contracts of employment are now provided for a range of public service managers, especially the chief executives. Many of these employment contracts, though renewable, are for fixed-terms by periods and renewable subject to satisfactory performance.

Pay scales of chief officers are now sufficiently flexible to provide room for performance-based rewards. In the early 1990s, the PRP schemes in particular appeared to be prospering well across the British local authorities, and variations of discretionary increments in existing scales, merit bonuses or awards for exceptional performance were used. However, from the last quarter of the 1990s to date the trend has been that most of these authorities have been abandoning the schemes in favour of single status incentive packages, which are broad-banded, skill-based alternative incentive schemes.

The general attitude against PRP schemes is that they are divisive, subjective, and therefore incompatible to political institutions such as local governments. Important ingredients of a performance management scheme are performance agreements, performance measurement, rewards, sanctions, and most importantly the performance information flows. Contrary to the expectation of this study, the vast majority of the respondents did not agree to subscribe to the statement that performance-pay incentive schemes do help organizations to develop clear, specific, and measurable performance objectives. This is a clear indication of

cultural incompatibility of such schemes in PSOs.

To develop the necessary capacity for organisational cultural change or in order to ‘seed the change process’ the literature recommends that certain features have to prevail on the ground (Collinge and Leach, op. cit). These include the articulation by leaders (politicians as well as officials) of the need and implicit advantages for such a strategic change of vision; the creation of interactive environment i.e. conducive bodies, structures and communication systems at corporate level, to facilitate greater co-operation and breakdown duplication; and the development of a culture which rejects short-termism and departmentalism and is more conducive to a more integrated approach.

6.8.2. Corporate Objectives

In a summary form the responses to three questions relating to the origin of corporate objectives and their departmental linkages are presented in Table 6.8.2 below.

Table 6.8.2: If authority has Corporate Objectives Statement,

Number of respondents 52	Yes %	NO %	Too Busy %
Does management internally develop it?	82.7	15.4	1.9
Do the members politically determine it?	88.5	9.6	1.9
Are corporate objectives broken down into departmental objectives to easy their implementation?	92.3	5.8	1.9

Therefore, based on this evidence, we may deduce that authorities have corporate objectives that which originate from within with full consent of the members. Most importantly, these organisational objectives are translated into implementable departmental objectives. This is sufficient evidence to support the conclusion that BLGs do have a conducive operating environment appropriate for strategic PM.

6.8.3. Dissemination of information

Table 6.9.3 below presents the summary of responses of how BLGs disseminate information relating to corporate objectives.

Table 6.8.3: Communication of corporate objectives

N = 52	YES %	NO %	NA %	TB %
Are corporate objectives communicated to employees through their line managers?	90.4	7.7	0.0	1.9
Are the corporate objectives communicated to employees through informal means?	82.7	15.4	0.0	1.9
Are the key objectives not communicated to employees at all?	3.8	34.6	59.6	1.9

Table 6.8.3 above indicates that not only do BLGs have mission statements in place, but also, both informal and formal means of communication are used to ensure that all employees and members are aware of what the authority's objectives are and what each one of them is expected to achieve at departmental/sectional levels. There is a very small chance (0.038) that key objectives are not probably communicated to all employees.

6.8.4. Existence of PMS and PRP Schemes

Table 6.8.4 below summarises the responses relating to the issue of existence of PM systems and PRP schemes in the British LG system.

Table 6.8.4: Existence of PM and PRP schemes

Summary of questions	Yes %	No %	NA %	TB %
Does the authority operate a performance management system (PMS)? N = 52	69.2	26.9	1.9	1.9
If yes, will the authority retain the PMS in future? N=36	80.6	11.1	8.3	0.0
Does the authority operate a performance-related pay scheme? N = 52	9.6	88.5	0.0	1.9
If yes, will the authority retain the existing PRP scheme? N=5	80.0	20.0	0.0	0.0
If no, does the authority have a plan to introduce a performance-based incentive scheme in future? N=46	32.6	52.2	15.2	0.0
Is PRP scheme specifically linked to the system of performance management? N=52	11.5	13.5	73.1	1.9
Does the authority operate an incentive scheme other than PRP for the employees? N=52	38.5	57.7	1.9	1.9

The study found that 69.2 per cent of the 52 respondents agreed that their councils operate PM

systems and 81 per cent of whom agree that plans were in place to retain the systems in future. Although, the literature argues that PRP is an important dimension of a PM system (Horton and Farnham, op. cit.; Hughes, op. cit.), the overwhelming majority of local government offices responding to this questionnaire indicate that this is not necessarily the case. Only 9.6 per cent of the responding managers have PRP schemes installed.

Surprisingly the findings also suggest that the majority of councils (52.2 per cent of 46 respondents) not currently operating the systems have NO plans to introduce PRP schemes in future. Even where both PMS and PRP schemes are operated it is not automatic that these two must be linked. A sizeable minority (38.5 per cent) also operate incentive schemes other than PRP.

6.9.5. Coverage of PRP schemes

Coverage of the PRP schemes is one of the issues raised in the literature review as being responsible for the failure of the schemes in some organisations (Kelly and Monks, *ibid*; Kloot and Martin, *ibid*.; OECD, 1997). In this study, the responses to questions addressing this issue where applied are summarised in Table 6.9.5 below:

Table 6.9.5: Coverage of PRP scheme summary

N = 52	Yes %	No %	NA %	TB %
Are all employees covered by the PRP scheme?	9.6	17.3	71.2	1.9
Does the PRP scheme cover all chief officers only?	15.4	13.5	69.2	1.9
Does the PRP scheme cover only some of the senior officers?	13.5	13.5	71.2	1.9
Does the PRP scheme cover manual employees only?	5.8	21.2	71.2	1.9

Based on the evidence presented in Table 6.9.5 above, it is clear that a small proportion of the respondents have PRP schemes installed. However, where PRP scheme is installed, it disproportionately covers some employees. This finding is consistent with the findings in other

empirical studies that the scheme does not cover all employees. This is arguably an indication that there will be a potential risk of failure of a PRP scheme if the issue of coverage of the scheme is not adequately addressed.

6.9.6. Target-setting and performance evaluation

Table 6.9.6 below summarises the responses of 52 managers to questions addressing issues relating to target setting, performance contracting and evaluation.

Table 6.9.6: Performance targets, contracts and measurement processes

N = 52	Yes %	No %	NA %	TB %
Does every employee have a written copy of his/her agreed performance targets or contract?	32.7	55.8	9.6	1.9
Does every employee have a written copy of his/her agreed performance targets or contract, which sets out specific rewards and sanctions?	17.3	59.6	21.2	1.9
Does the authority have a formal system of individual performance appraisal or measurement?	71.2	25.0	1.9	1.9
Does the authority have a performance measurement scheme, which links employees' Training Needs Assessment (TNA) with their respective performance appraisal results?	63.5	21.2	13.5	1.9

KEY: NA = Not Applicable, TB = Too busy to respond

Target setting is not taken seriously at individual level and this is potentially a risky situation as it diminishes the degree of personal commitment to goal attainment. The study found a vastly increased use of individual performance evaluation throughout the local government sector. Some of the general comments are as follows: (Please note that personal identities of respondents are withheld for confidentiality reasons. Instead all interview quotations are referenced on status basis e.g. CEO, Chief Officer, etc)

“... now we have a system of personal performance measures – new to this council – we have developed action plan out of last year’s corporate plan ... and we have developed individual responsibility for corporate goals. Now everyone is appraised by his/her supervisor.” CEO.

“Each manager has a list of performance objectives, which are linked to the corporate plan – part of the incentive scheme.” CEO.

Based on Table 6.9.6 above, only one council out of 52 respondents does not have some form of individual performance evaluation system in place. The HR manager for this council said that this is because the authority is developing a human resources system to allow it to

undertake performance evaluation. The tendency is to have two types of performance evaluations, one for managers and another one for other employees.

6.9.7. Significance of quantitative, qualitative data & management accounting systems

Difficulty in measuring qualitative performance indicators

Most of performance in local authorities is qualitative. The need for qualitative indicators has been apparent throughout all the interviews, with interviewees commenting on the need to develop key performance indicators for quality, quantity and workload, and to move to outcome-based measures rather than budget-based measures. Most interviewees suggested that services can and should be measured in quality terms, but the development of appropriate and useful quality measures is difficult and time consuming.

Mismatch between practice and textbooks

The practice which prevailed in individual local governments in the past has not always been in accordance with text book processes, and certainly did nothing to enhance accountability. For example, when one CEO commenced work at his council, his first action was that of changing a tendency in which budgeted figures were changed so that the budgets matched with the actual figures and variances were avoided. A finance director in another case, when newly arrived in her council had not found any budget reports other than the annual report to council and the regulatory bodies. Financial performance was not monitored for either management control or accountability purposes between annual reports, and probably not even then.

Budgetary reports not informative

Other authorities did use budgetary data in a constructive manner to measure performance. Even so, it was often felt by senior managers that budgetary reports were lacking some vital information – they may for example have contained “year-to-date” expenditure against the total budgeted amount, but not have given any indication of the expected timing of budgeted cash flows over the year.

Increased relevance of financial data

Accounting indicators have assumed new importance in this era of increased financial accountability to the state government and the local community, and managerialist philosophies. Accounting data is used to measure the organisation in efficiency terms. It is seen as crucial in performance measurement by all the interviewees in this research – if the budget is met, then at least one aspect of performance is good. Without exception, the interviewees reported that managers in this new era of accountability are required to manage their budgets. Comments such as the following were widespread:

“...performance against budget is a key result area for every manager.” CEO.

“...the ability to maintain budget is a generic skill which is one of our key performance criteria.” CEO.

Need for management accounting skills

Both expense budgets and revenue budgets are used, depending on the purpose of the individual departments. One respondent suggested that there would be more of an emphasis on non-budget but still financial-based data if such data existed. However, there are problems in developing such data¹⁷. There is a lack of appropriate financial information processes and systems throughout the sector, resulting from a history of inappropriate accounting regulations. Good management accounting systems are now in the process of development as indicated in the following Table 6.9.7.

Number of respondents 52	Important %	Not important %	NA %	Too Busy %
How important is the role of management accounting data when developing corporate objectives?	63.4	13.5	15.4	7.7
How important is the role of management accounting data when developing departmental objectives?	69.2	13.5	15.4	1.9

¹⁷ See Kloot *et al.* (1999) for a discussion of accounting and financial information problems in local government.

How important is the role of management accounting data when evaluating performance against each of the corporate and departmental objectives?	69.2	13.5	15.4	1.9
How important is the role of management accounting data when developing individual performance indicators?	59.6	23.1	15.4	1.9
How important is the role of management accounting data when monitoring achievement of performance targets?	59.6	23.1	15.4	1.9
How important is the role of management accounting data when decisions are made about individual incentives and reward structures for employees?	50.0	25.0	19.2	5.8
How important for this authority is the management accounting information system?	73.2	11.5	11.5	3.8
How important are qualitative performance targets for this council?	82.7	0.0	13.5	3.8
How important are quantitative performance targets for this council?	88.5	0.0	9.6	1.9

The sector has been freed from the restrictive requirements of the past and is now expected to comply with accounting standards, which also apply to the private sector. There is still some dissatisfaction with the quality of budget reports, and with the difficulty in restructuring reports so that managers receive performance data, which relates to their areas of responsibility. To overcome data problems, some local governments develop financial indicators outside the accounting system using raw accounting data and manipulating it on a spreadsheet or similar facility.

6.10. Conclusion

Generally, the empirical evidence presented in this chapter suggests that circumstances giving rise to pressures for managerial reform were based on mismanagement and poor records of public service performance, combined with difficult industrial relations. Pay reform is one of the strategies which were adopted by the BLGs to attract skilled managers from the market. However, further evidence consistently indicates that the adoptions of market-type managerial and pay reform processes in local governments have not been easy to implement due to

inappropriate institutional capacity to do so. Despite having most of the *conditions* and *processes* in place as the dimensions of capacity to allow, for example, effective implementation of performance-pay motivational structures, lack of technical know-how and cultural incompatibility have been the main constraints. Overwhelmingly, the evidence has demonstrated that adequate skills needed to apply private sector based managerial techniques are still lacking. Consequently, a very small proportion of local authorities in UK have managed to install both PMS and PRP schemes. Even those in PRP schemes place are gradually being abandoned.

Chapter Seven

CASE 2: SURVEY ON PERFORMANCE MEASUREMENT & PRP IN BRITISH LOCAL GOVERNMENT

7.0. Introduction

There is no doubt that the new markets and new strategies that have emerged over the last few years demand new and different performance measures. The so-called three Cs – customers, competitors and change – plus the amazing speed of technological change have had a profound effect on the way organisations develop their performance measurement systems. Effective performance measurement is of key importance in ensuring the successful implementation of an organisation's strategy. In a public sector environment the main objective of performance measurement systems is to support better PM decision-making process leading to equitable PRP decisions, improved quality of services for the community, and to meet external accountability requirements.

Most importantly, all instruments of performance management are to a greater or lesser extent based on measurement of performance. Performance measurement – i.e setting objectives and targets – was perceived as a basis for better management and way of ensuring a clear discharge of accountability, which is clearly crucial in a sector which delivers some 40 per cent of national gross domestic product (GDP). For this reason the practice of measuring performance and accountability (PMA) in the British local government system is thus increasingly seen as an integrated part of many management strategies, rather than being seen as an isolated approach. This Chapter presents research findings that are responding to the whole range of issues relating to the process of measuring and rewarding performance in British local government system.

7.1. Performance Measures in British Local authorities

The senior officers interviewed about the practice of measuring performance in local government describe the approach as being relatively different from that of the private sector counterparts. This is because some had been appointed from the private sector, and others had been working in different local and central government agencies. So, they were making comparisons based on their previous experiences. When interviewed about the impact of organisational culture of local authorities on the process of measuring performance and accountability, all suggested that they had to tackle the issues of culture in their organisations in order to implement the changes required by the central government and the market alike. The changes they are making relate to all aspects of management, and include new perspectives on PM, measurement and conditions of service. Cultural change as examined in chapter six above is a process that has to be cultivated very gradually before real 'fruits can be reaped'.

During the survey and discussions with respondents it became clear that there were no systematic differences in the views expressed by the officers about issues of PMA in local government. There were also no systematic differences between the typology of authorities in terms of political and administrative compositions and structures. The discussions and interviews centred around four key issues about PMA processes: (1) the extent to which performance measures are applicable, (2) factors affecting the use of performance measures, (3) performance contracting and measurement, and (4) Rewards and sanctions in performance measurement. The responses to these issues are summarised in the following subheadings. Please note that where applicable for reasons of confidentiality references for the quotes from interviews etc will not disclose specific names of individuals or their authorities.

7.1.1. The scope of performance measures in local government

The interviews revealed a substantially increased use of performance measurement systems in local government since previous studies were undertaken (Kloot and Martin 1995; Kelly and Monks, op. cit.). The use of performance measures has increased across a range of dimensions. Financial performance measures, including budgetary and other data and non-financial performance measures are being calculated and used in the management process to improve performance of both individuals and councils. Apart from the National Performance Indicators (PIs) developed by the Audit Commission, all councils have developed their own local BV performance indicators and are using them, although to different extents. Financial measures are the most developed, followed by customer service measures. The factors affecting measures being used are discussed in detail below.

7.1.2. Factors affecting the use of performance measures in LGs

Systematically, respondents explained that the increased use of performance measures appears to have been driven by two factors. The first factor is increased accountability to environmental and process stakeholders (as discussed in Chapter Three), including both the central government and the local community. The emphasis on accountability mandated by the government has significantly altered the perceptions of managers as to the need for and efficacy of performance measurement. Lack of accountability, which was endemic in the industry until the latest round of restructuring, is no longer the norm. The new emphasis on accountability is being assisted by the use of performance measures. In particular, one of the respondents emphasised that:-

“The problem has been a pathological lack of accountability in local government in the past – now [we] need meaningful performance evaluation.” CEO.

The second factor is from an internal or managerial control perspective. There is an appreciation by recently appointed executives and managers of the implicit value of

performance measures in enhancing performance. The use of performance measures has been related to the managerial changes imposed on local authorities by the central government, in particular the introduction of practices such as Best Value, contracting-out, market-testing, etc. These changes have resulted in the need to compete with private sector organisations in service provision and to measure performance to allow local governments to compete on equal terms. Local government managers recognise that they must measure their own performance, as they need to justify what they are doing, both to stakeholders and in relation to the market.

The most compelling reason given for implementing performance measurement has been the introduction of New Public Management (NPM) and the more business oriented culture, which accompanies it. Interviewees frequently referred to the importance of performance management (PM):

“PM requires an emphasis on performance measures.” Chief Officer.

“Performance evaluation has only just come in, because of PM and a need to develop indicators to monitor contracts.” Chief Officer.

“PM has been the catalyst for performance measurement – previously managers were on a more secure employment basis.” Chief Officer

“Performance evaluation is driven by PM and whatever clients specified was in the service agreements.” Chief Officer

“We use key performance indicators as a result of competitive tendering.” Chief Officer

“Business areas have to monitor their competitiveness.” CEO.

Many of the performance measures developed since the introduction of contracting-out as a package of NPM are designed to monitor contract performance, regardless of whether or not the contractors are employed by the council. The measures are generally related to specification of service agreements. As such there is recognition that they should be output based rather than input based, but this is not always achieved. PM requires internal business units to compete with private sector organisations, so that performance measurement takes on a results-based

focus, as it does for the private sector.

Another reason given for the introduction of performance measurement is its relevance to the annual Corporate Performance Plans as a requirement by the central government. Chief Executives are reporting performance against the corporate plan for long-term strategic reasons, in addition to the need to satisfy statutory requirements:

“Performance measures are coming out of the corporate planning process – it is the first time performance measures have been used this way.” CEO, 2000

“Substantial change ... measure progress against the corporate plan.” CEO, 2000

“We use MBO and establish key results areas driven by corporate plans.” Chief Officer.

“... performance measures are linked to the corporate plan – some quarterly performance indicators for quarterly reporting our progress.” CEO, 2000

7.1.3. Performance contracting and measurement

Issues being examined in this study include the nature and meaning of contractual relationships in a public sector environment, and the extent to which it is possible or desirable to incorporate required performance arrangements into a contract. A PM system to be effective needs to have a performance agreement (contract) with detailed statements of accountabilities and performance measurement scheme. This assures stakeholders of Best Value performance and makes employees feel valued and committed to what they are doing in an organisation. A performance contract gives employees an opportunity to be clear of what they are expected to deliver. A performance measurement scheme ensures that both organisational objectives and individual objectives are actually being achieved. Where this is not happening, then areas for improvement through training and development are identified sooner rather than later. In addition to this general observation about performance contracting and measurement, the managers were asked specific questions about their practical experience and the possible problems encountered. Their responses to questionnaire questions are presented in Tables 7.1.1 though 7.1.6 and corresponding pie charts.

Table 7.1.1: Does every employee have a written copy of his/her agreed performance targets or contract?

	Freq	Percent	Valid Percent	Cum Percent
Too busy to respond	1	1.9	1.9	1.9
not applicable	5	9.6	9.6	11.5
Yes	17	32.7	32.7	44.2
No	29	55.8	55.8	100.0
Total	52	100.0	100.0	

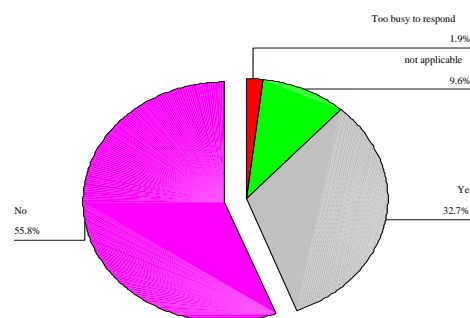


Table 7.1.2: Does every employee have a written copy of his/her agreed performance targets or contract which sets out specific rewards and sanctions?

	Freq	Percent	Valid Percent	Cum Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	9	17.3	17.3	19.2
not applicable	11	21.2	21.2	40.4
No	31	59.6	59.6	100.0
Total	52	100.0	100.0	

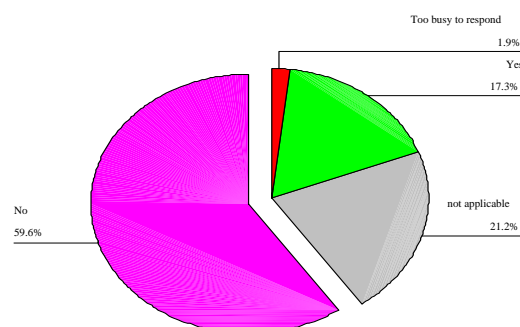


Table 7.1.3: Does the authority have a formal system of individual performance appraisal or measurement?

	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Not applicable	1	1.9	1.9	3.8
No	13	25.0	25.0	28.8
Yes	37	71.2	71.2	100.0
Total	52	100.0	100.0	

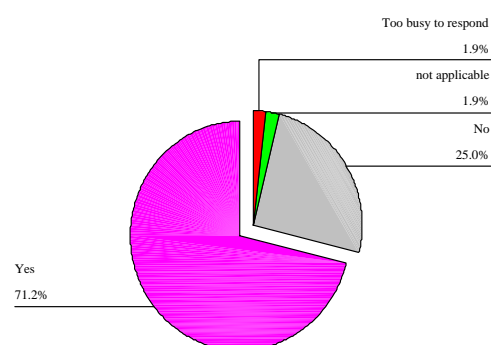


Table 7.1.4: Does the authority have a performance measurement scheme which links employees' Training Needs Assessments with their respective performance appraisal results?

	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
not applicable	7	13.5	13.5	15.4
No	11	21.2	21.2	36.5
Yes	33	63.5	63.5	100.0
Total	52	100.0	100.0	

..

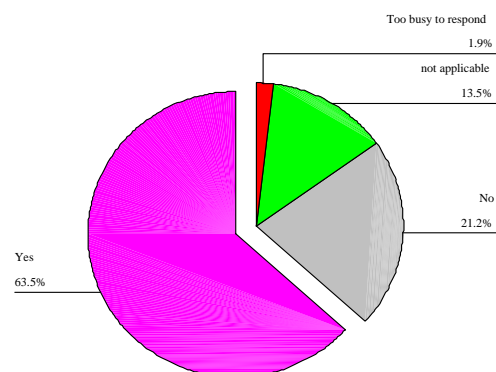


Table 7.1.5: Where discontent has arisen within the authority, has been the question of the process of appraising individual performance?

	Freq	Per	Valid Per	Cum Per
Too busy to respond	1	1.9	1.9	1.9
No	6	11.5	11.5	13.5
Yes	8	15.4	15.4	28.8
Not applicable	37	71.2	71.2	100.0
Total	52	100.0	100.0	

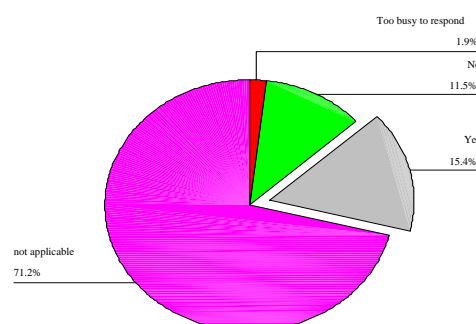
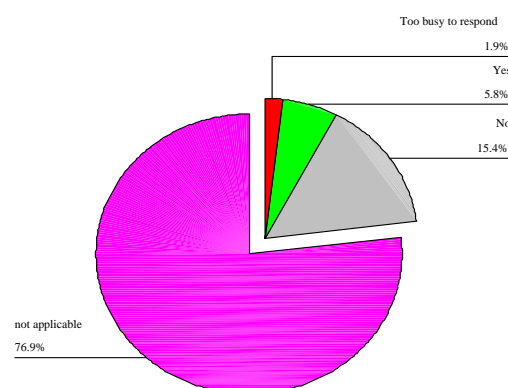


Table 7.1.6: Where discontent has arisen within the authority, has been the question of the ranking of individual performance?

	Frequency	Percent	Valid Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9	1.9
Yes	3	5.8	5.8	7.7
No	8	15.4	15.4	23.1
not applicable	40	76.9	76.9	100.0
Total	52	100.0	100.0	

The trend analysis of the responses in Table 7.1.6 above is presented in a Pie Chart format as follows:



7.1.4. Rewards and sanctions in performance measurement

There are rewards for the achievement of performance targets which are not necessarily in a form of cash payments. Most officers expressed concern over performance-based pay in all cases, arguing that this form of incentive is extrinsic and divisive. Bonus payments for managers also depend to some extent on the ability to pay of an individual local government. Here are some of the comments in relation to rewards and sanctions in performance measurement:

“Previously we had no reward system – now everyone down to third tier managers¹⁸ and further down in future have their performance measured.” CEO.

“There is scope for performance-based pay, assuming the council has the financial capacity to deliver up to a 10 or 15 per cent bonus.” Chief Officer

PRP has resulted in the use of contracts which include specific key results areas, against which the performance of senior managers is measured. In all the councils taking part in this research, all senior staff had key results areas written into their contracts, and their performance in these areas was frequently monitored, on a quarterly or half-yearly basis. Bonus calculations however are usually done on an annual basis. Bonuses may be paid either in addition to annual increments based on length of service, not performance, or in place of such increments.

Key results areas vary between councils, with a range of financial and non-financial areas in the agreements. However, they always include the ability to manage a budget as a specific skill, or as one of the generic management skills expected of all managers. Other key result areas, which are being referred to, include leadership style, and customer satisfaction. Some of the comments are as follows:

“Managers are evaluated on ten key areas against targets in each area. Some of the measures revolve around budget and financial data but others are broader ... not measured in the past.” CEO.

“... major area is financial management.” CEO

Employees are more likely (than managers) to be evaluated for the purpose of establishing training and development plans tailored for individuals. Their performance interviews are designed to establish training needs: there is no mention of bonuses for employees below the fourth tier of management. However, training and development courses are seen as a form of reward by the interviewees. Here are some of their comments:

¹⁸ There are four tiers of managers in most of the local governments in this study – CEO, directors and two levels of middle management.

“Individual performance evaluation at employee level is about skills and training needs.” Chief Officer

“...review performance against plans ... do people need any further training?” Chief Officer

“For lower level staff, it [evaluation] is about personal development.” Chief Officer

“Staff are reviewed for development purposes and training requirements every 12 months.” Chief Officer

“For staff there are two parts. Firstly, they are evaluated on generic skills and second part on specific goals aligned to organisation’s goals ... review done at least half yearly.” Chief Officer

Staff development plans are now primarily for lower level staff, not managerial staff. Managerial staff are expected to bring the requisite skills with them to their positions, and should not require further training. However, one council still uses development plans for managerial staff.

“... for senior managers look at generic management skills which are linked to full key performance targets for each position ... still section [in performance appraisal] on personal development, as for lower level staff.” Chief Officer

Overall, individual performance measurement has vastly increased from a base of virtually zero measurement just a few years ago to the current position of widespread performance measurement for accountability, performance-based rewards (not necessarily cash) and staff development purposes.

7.2. Performance Indicators: The balanced scorecard approach

Each year The Audit Commission draws up a list of indicators for measuring the performance of local authorities, police and fire authorities. The authorities must then publish details of how they perform in terms of these indicators. Once they have done this, the Commission collects the information together at a national level, analyses it and then publishes this comparative data, along with year-on-year comparisons, together with a commentary. There are two main types of indicators – financial and non-financial.

7.2.1. Financial Indicators

A financial performance indicator in terms of accounting or budgetary data plays a vital role in the process of measuring performance in organisations. The same trend can be observed in the British local government system. Interviewees said that this is partly because the central government regulatory agencies, the Local Government Management Board (LGMB), and the Audit Commission, always require accounting reports so that they could monitor the performance of local government authorities.

7.2.2. Non-financial indicators

Therefore, although there is a heavy emphasis on financial indicators, non-financial indicators are also commonly used in such public sector environments. As is becoming common in the private sector with the use of the balanced scorecard approach (Kaplan and Norton, 1992, 1996), non-financial performance indicators are used to create a more balanced view of the organisation and how it achieves its service provision:

“We started with financial performance measures and are moving on to non-quantitative. In the management group we stress that the social implications are important – quality of life, community needs.” CEO

One local government which used non-financial indicators when they were “amenable” to the situation was trying to develop a more comprehensive set of indicators linked to the corporate plan, but felt that:

“the corporate plan needs to be less of a mission statement and needs to ensure that things happen before good indicators could be established.” CEO

The difficulty of developing good qualitative performance indicators was often referred to as

“... [it] will be 3-5 years before we can develop proper qualitative measures.”

7.2.3. Customer focus indicators.

Customer focus performance indicators are directly commensurate with the PM model, which emphasises on development of end-user orientation culture. Measuring

performance related to customer satisfaction is one way of maintaining the focus on community service and being accountable to the local community. Customer focus is the second of Kaplan and Norton's (1992) balanced scorecard key perspectives, and it is of apparent importance in local government as one of the surrogate measures of effectiveness.

Use of customer attitudes surveys

Respondents reported that measuring quality should be customer focused. Most of the respondents indicated that they were using customer surveys to gauge community response to the council's performance. They were working towards enhanced customer-focussed measures.

Here are a couple of their comments during discussions:

"...we are using customer surveys but not yet at a sophisticated level." CEO

"...looking towards incorporating a customer satisfaction index into the annual report." CEO

Community needs assessment

Interviewees stressed the need to ensure that there is a focus on community needs in local government, not just on financial targets. Several interviewees pointed out that they had to balance the new emphasis on financial performance and financial accountability to the government with community service obligations and non-financial accountability to the local community. One of the managers stressed that:

"...they [business unit managers] are not there to be profit centre managers and to make a profit." Chief Officer

7.2.4. Innovation and learning indicators

Encouraged but not measured!

Like customer focus, innovation and learning is one of the key perspectives identified by Fitzgerald *et al.* (1991) and Kaplan and Norton (1992). In examining this aspect of the balanced scorecard approach to performance measurement in British local authorities, the study observed that various managerial changes taking place require new organisational perspectives, new processes and a new culture throughout the sector.

This could reasonably be expected to lead to local governments seeking innovation in the way they undertake these changes. However, on the ground the reality is that it is a small proportion (about 23.8 per cent) of the 52 of the respondents in this research are focusing on innovation as a key performance indicator. One of the officers in these councils generally

reported that:

“...innovation is listed as a key value of the organisation ... we encourage selective risk taking.” Chief Officer.

Another officer suggested that innovation is encouraged, even if it is not measured:

“People are encouraged to be innovative and take risks and step outside the norm.” Chief Officer.

Whilst innovation and learning are occurring in the sector, they are not being formally measured in the majority of local governments. Interviewees gave examples of where they thought their councils were innovative. A number of respondents quoted their customer service practices as being innovative. Some of the respondents said that:

“...we are the first council to use customer surveys on the Internet and provide a community wide information system.” Chief Officer

“...our other innovation is talking to community groups and landowners.” Manager, 2000.

“...customer service desk is an innovation...” Chief Officer

“...electronic service delivery.” Chief Officer

“...innovative work in improving customer relations and reducing complaints.” Chief Officer.

“...innovation in terms of programs for mental health and in art and cultural area.” Chief Officer.

Misconceptions of innovation

Others looked to internal processes as being innovative. They gave a number of examples of what they thought were innovative practices:

“...would be amazed if anyone is doing the basic things better than us.”

“... award for innovative management skills.”

“...structuring the organisation and developing a style of thinking.”

“... viewing performance – we measure correct decisions and take away incorrect decisions – we don’t concentrate only on wrong decisions.”

“...benchmarking in ABC, culture change work.”

“...our electronic technical stuff is state of the art.”

“... the way BV is implemented – real competition with high number of services outsourced.”

“...financial and management reporting, computerisation, linkage of corporate plan, operating budget ...” CEO

As these examples demonstrate the importance of innovation and learning for local government lies in the subsequent implementation of better processes and services. Better processes will lead to more flexibility, enhanced quality and improved efficiency and effectiveness. Local governments, which learn, should ultimately be more accountable to their local community through better management practices. Measuring innovation is a step towards achieving this end.

7.3. Measuring Performance & Giving Feedback

The managers' responses to performance pay across a range of public sector organisations indicate that the process used to measure performance are critical to the success of performance pay schemes. When responding to the statement *'my work objectives are clear and specific. I know exactly what my job is'*, 87 per cent of managers considered that their set objectives were *'clear and specific'*. Nevertheless, 78 per cent still ranked *'measurement of performance'* as one of the top three disadvantages with the system, indicating that clarity and specificity of objectives do not necessarily result in an adequate measure of performance. In both, the comments on the questionnaires and in the follow-up interviews, measurement of performance emerged as the primary cause of concern and dissatisfaction with the PRP.

“I think that personalities will always play a big role in any individual's assessment and until somebody devises a method to overcome this then I think we will have to live with under-performance and over-performance but I think that it is where a potentially very good system will become unstuck” (CEO).

Managers expressed concern about the extent to which the maximum reward was achievable. Additional difficulties with the measurement of performance were evident in the comments which reflected the problems involved in defining and measuring goals for managerial positions: *'True goals are hard to clarify and harder still to judge'* (CEO).

The task of measuring managerial performance is a difficult one. However, a number of

mechanisms have been suggested as a means to overcoming this obstacle. Although less than half of the respondents agreed with the statement '*I receive a considerable amount of feedback concerning my quantity of output on the job*' in the follow-up interviews, the study revealed a heightened awareness of the importance of feedback in the PRP process. Another interesting observation is that while in the follow-up interviews, a correlation existed between an improvement in communication with the managers' immediate supervisor and an improvement in performance, in the survey only 27 per cent of the respondents actually felt there was an improvement in communication between themselves and their immediate supervisor. Therefore, it would appear that the extent of feedback available was limited for many or else, the individuals who completed the questionnaires were not the same persons who participated in the follow-up interviews.

Performance measurement is the cornerstone of any performance-pay incentive scheme. Arguably, performance measurement is at the heart of the debate and controversies surrounding the implementation of the PRP scheme especially in the public sector. Therefore, to survey the perception of local government managers about equity of PRP schemes in as far as performance measurement process issues are concerned, respondents were asked to give their personal views on five different statements (see question 7.0 in Appendix C). Their responses are presented in Tables 7.3.1 through 7.3.5 inclusive below

Table 7.3.1: As a result of operating a performance-based incentive scheme, my work objectives are clear, specific, and measurable.

	Frequency	Percent	Cumulative Percent
too busy to respond	5	7.1	7.1
agree	14	20.0	27.1
no view	17	24.3	51.4
disagree	19	27.1	78.6
strongly disagree	12	17.1	95.7
not applicable	3	4.3	100.0
Total	70	100.0	

The trend analysis of the responses in Table 7.3.1 above is presented in a Bar Chart format as follows:

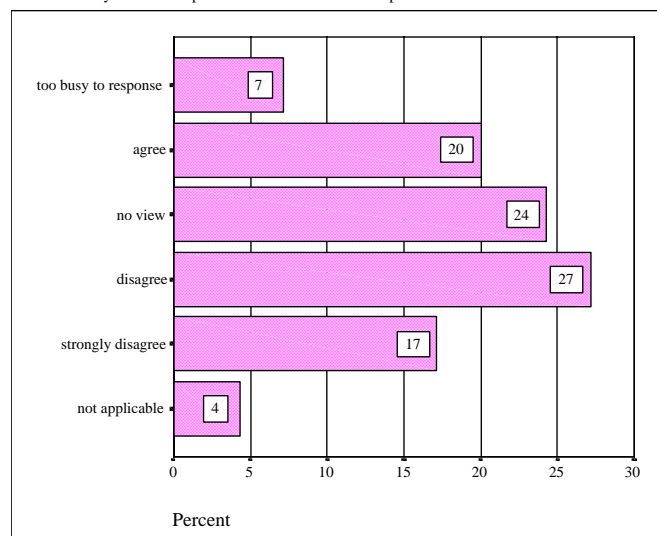


Table 7.3.2: Feedback and feed-forward loops are most important aspects of a performance measurement scheme in local authorities

	Freq	Percent	Cum. Percent
too busy to respond	5	7.1	7.1
strongly agree	17	24.3	31.4
agree	36	51.4	82.9
no view	9	12.9	95.7
disagree	1	1.4	97.1
strongly disagree	1	1.4	98.6
not applicable	1	1.4	100.0
Total	70	100.0	

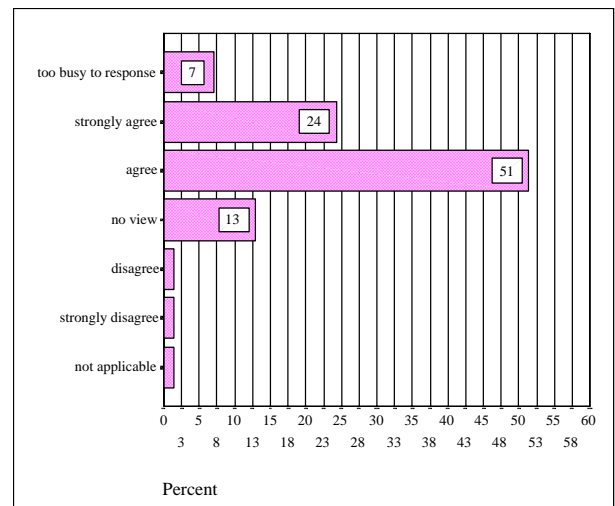


Table 7.3.3: The task of measuring managerial performance is a difficult one

	Frequency	%	Cumulative Percent
too busy to respond	5	7.1	7.1
strongly agree	2	2.9	10.0
agree	24	34.3	44.3
no view	14	20.0	64.3
disagree	14	20.0	84.3
strongly disagree	7	10.0	94.3
not applicable	4	5.7	100.0
Total	70	100.0	

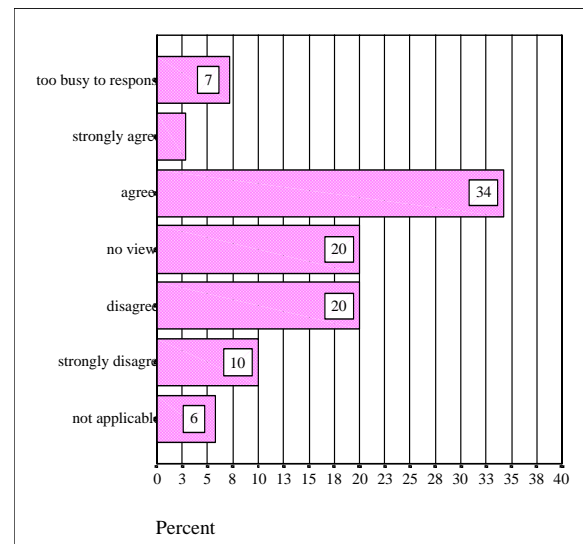


Table 7.3.4: The process of linking pay to performance is ambiguous and very subjective

	Freq.	%	Cum (%)
Too busy to response	5	7.1	7.1
Strongly agree	20	28.6	35.7
Agree	28	40.0	75.7
No view	3	4.3	80.0
Disagree	10	14.3	94.3
Not applicable	4	5.7	100.0
Total	70	100.0	

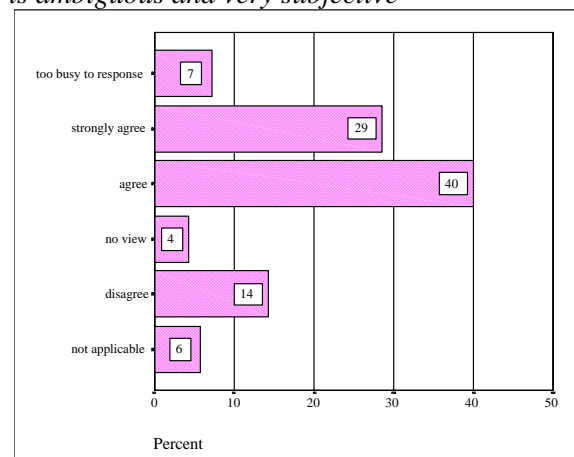
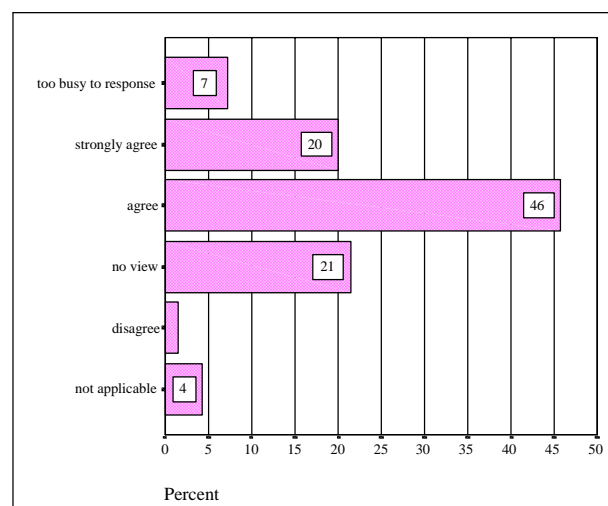


Table 7.3.5: A number of mechanisms are possible to overcome difficulties in measuring managerial performance in a public sector environment

	Freq.	%	Cum (%)
Too busy to response	5	7.1	7.1
Strongly agree	14	20.0	27.1
Agree	32	45.7	72.9
No view	15	21.4	94.3
Disagree	1	1.4	95.7
Not applicable	3	4.3	100.0
Total	70	100.0	



7.4. Discussion about performance measurement in BLGs

Significant organisational changes are occurring in the local government sector. In general these changes in Britain have focused attention on organisational and managerial accountability. There is now a requirement (legislated by the central government through the Audit Commission) to compete within the local government sector in order to enhance financial and political accountability. These changes have brought about the need for BLGs to more appropriately measure their performance. The main observed problem is resistances of organisations to changes or the pace at which the changes are taking momentum.

The Audit Commission has suggested a performance measurement regime for local governments in Britain for which there has been little prior research. This research project was designed to examine, among other issues, the nature and use of performance measurement schemes in this branch of public sector as a fundamental dimension of PM in general and PRP in particular. Reflections from this survey suggest that from an internal control perspective, performance measurement systems are designed to monitor the implementation of an organisation's plans and determine when the plans are unsuccessful and how to improve them.

These systems are used to focus attention on the organisation's objectives, to measure and report performance and to understand how process performance affects organisational learning.

The study has observed that identifying operational problems, which can be solved by adjusting existing processes, and indicating more fundamental problems, which require an adjustment to the strategies of the organisation, are further uses of performance measurement. There is also a general consensus that performance measurement promotes accountability to stakeholders, particularly in PSOs where the nature of stake-holding is homogenous.

7.4.1. Practical implication of measuring performance

This chapter has examined the extent to which performance measurement systems are currently being used in British local government, the factors that lead to the use of performance measurement, and the extent of non-financial indicators. The survey results have revealed a substantial increase in the level of use of performance measurement in the sector related to increased emphasis on accountability and organisational changes imposed on the sector by the central government and the market alike. The performance of both people and programs is now being measured. Although there is an emphasis on financial and budgetary measures for financial accountability, the use of non-financial measures in determining outcome accountability is increasing through Best Value Performance Indicators (PIs). Customer service and quality are two of the areas in which non-financial performance measures are being developed rapidly. These are required by the government to be published by every British local authority annually. In some cases there is a tendency for local governments to develop a corporate plan which was then "placed unused in a bottom drawer" until the next time a plan was required to be written.

7.4.2. Performance assessment and allocation of pay awards

There are numerous variations in how performance is assessed and how the

assessment is linked to the allocation of performance pay awards. In some schemes performance appraisal is a detailed and formalised process, with performance pay linked in a mechanistic fashion to performance ratings. In others, performance rating is informal, no written appraisal may be required, and there is a large element of managerial discretion in the allocation of performance pay awards. The study observed also that systems of performance appraisal based on management-by-objectives are becoming more widespread, although there are practical variations in approach.

7.4.3. Factors attributable to increased use of performance measures

The study has observed a substantially increased use of performance measurement systems in local government since previous studies were undertaken. The use of performance measures has increased across a range of dimensions. Despite this increased use of performance measures the authorities are consistently experiencing difficulties in developing and using performance measures for accountability purposes. However, the factors that have motivated the councils to continue adopting them are such as:

- (a) The increased accountability of managers to environmental and process stakeholders, including both the central government and the local community;
- (b) The recognition by the managers of the implicit value of performance measures in enhancing performance and accountability. In particular the introduction of practices such as Best Value, contracting-out, market-testing, etc.; and
- (c) The relevance of performance measurement and accountability processes to the annual Corporate Performance Plans as a requirement by the central government.

7.4.4: The balanced approach to measuring performance

Finally, though in a superficial way, the evidence gathered suggest that many authorities in this study are using the Kaplan and Norton's balanced scorecard approach (BSA) to develop performance indicators for measuring performance. The BSA has also featured

to be a useful analytical tool in measuring performance. There are four dimensions of the balanced scorecard model as illustrated in Figure 3.2 of Chapter Three of this thesis: i.e. financial; community or customer; internal business processes; and growth or innovation and learning.

(i) Financial focus dimensions

Budgetary data plays a vital role in the process of measuring performance in organisations. Although some authorities are using budgetary data in a constructive manner to measure performance, the type of budgetary reports prepared are not informative enough to enable objective performance measurement for accountability processes to take place in the long run. Accounting indicators have assumed new important roles in this era of increased financial accountability to the government and the local community. However, the majority of managers responding to this research insist that there is a need for acquiring current management accounting skills necessary for preparing timely and more informative performance reports.

Financial and non-performance measures are calculated and used in the management process to improve performance of both individuals and councils. Financial measures used include those mostly reflecting customer service measures. The authorities started with financial performance measures and are moving on to non-quantitative despite difficulties encountered in measuring qualitative performance indicators.

(ii) Customer or community focus dimensions

Most of performance in local authorities is qualitative. Therefore, the quest for qualitative performance data has brought non-financial indicators in the limelight of local authorities. Measuring quality of services is the concern of customer focus performance indicators. Assessment of community needs is the strategy used by the local authorities to develop customer or community focussed performance indicators. They are attempting to strike a balance between the new emphasis on financial performance and financial accountability

to the government with community service obligations and non-financial accountability to the local community.

Formal quality assurance (ISO 9000) with its associated performance measurement is not a priority. It is viewed as expensive and time consuming, with too much focus on process and documentation and not enough on the quality of the services as perceived by the end user. However, some councils are quality assured under ISO 9000, and believe regular performance audits assist in process improvement. Despite the lack of formal quality measurement in other councils, an internal focus on quality of service was evident throughout the sector.

(iii) Internal business processes

Internal process reform in the British local governments is being driven by two factors: the need for cost reduction in a time of financial stringency, and the need to perform to business standards to be competitive and win tenders in a Best Value environment. Consistent with the need to demonstrate financial accountability, there is recognition that services must be delivered in a cost effective, high quality manner. This requires significant reform of processes and systems to reduce operation costs, requiring cost-based performance measures. However, lack of financial information on specific processes and the effect of process change on costs hampers reform. Managers are uncertain about how to proceed when the effects of change cannot be estimated. Lack of information and performance measures is a critical problem and a recurring theme in all councils.

Benchmarking, both formal and informal, is a popular method of process improvement. Formal benchmarking requires performance measurement, whilst informal benchmarking may take place in informal networks without formal indicators being available. Informal networking and benchmarking is valuable for local government to exploit opportunities to enrich management perspectives (Corrigan and Joyce 1997). Again, lack of valid information for accurate

benchmarking was observed to be a recurring theme.

Councils are largely following some form of business improvement program and system redevelopment. All councils in this study have a business improvement program based around documentation of processes, performance indicators and analysis of variances between target and actual performance indicators. Senior managers are emphasising the need for process reform at all levels as a strategic priority, linking processes to strategy as suggested by Atkinson et al (1997). Performance measurement in these councils is leading a process reform. The councils are also undertaking a formal program of process mapping for continuous quality improvement. This is an important initiative which would be of benefit to other councils.

As described earlier, councils are generally developing service charters, which requires analysis of internal processes and community perceptions of outputs. Writing contract specifications is a powerful process to review the way things are done, and on performance management. Recognition of the need to work towards customer satisfaction has lead to new processes replacing those which don't meet customer needs. Performance measures designed to enhance internal processes related to customer satisfaction include telephone answering performance and tracking the time taken to respond to letters.

Other methods which councils use to improve processes include formal monthly meetings to focus on process improvement and cost reduction, gain-sharing of 'profits' in provider units (especially in Warwickshire) and market testing. Market testing, whether or not formally part of BV, requires full specification of services and thorough analysis and review of the processes through which they are delivered.

Lack of performance measures has resulted in business process change being reactionary rather than strategic. However, business unit planning has been widely introduced, and this is being

undertaken within the strategic framework provided by the corporate plan. It is thus likely that process change will be more strategically oriented in future, if suitable performance measures are developed.

(iv) Innovation (growth) and learning Indicators

Continued organisational success depends on the ability of organisations to learn and to innovate (Senge, 1990) and managerialism requires a shift from a bureaucratic to an innovation paradigm (Dixon *et al op. cit.*). Yet this is the very observed area in which performance measurement and management is weakest in local government. There are gaps between what is perceived to be needed and what is measured. There is little recognition of the need for innovation and learning in formal documentation and plans. However, a council outside the five targets which were the subject of this research has incorporated innovation and learning into its corporate plan as a key result area, with appropriate performance indicators such as the number of organisational development programs conducted, participation in local government forums, the number of initiatives and innovations implemented, and the number of staff recognised for effective workplace innovations.

There is some recognition of the importance of innovation and learning. One council has developed a formal recognition program to encourage new ideas. It awards some cash annually for the best new idea, and awards movie tickets and dinner vouchers for other innovations. Every new idea gains some form of recognition. To encourage innovation this council gives staff the freedom to fail: staff may try out new ideas, and fail, but they should not repeat mistakes. The most important thing is that over-reliance on performance measures may suffocate innovation. Some councils believe that recognition rather than rewards encourage innovation. The benefits and motivational effects of celebrating success are recognised, although mechanisms for doing so are lacking. A comment made by one of the interviewees is that “*if something goes well, the councillors get the praise*”, indicating some

disillusionment with recognition of excellence at managerial levels.

Some managers suggested that heavy workloads are one of the reasons why there is a low level of innovation. Thinking of new ways to do things takes time which is not available. However, it was also suggested that there may be a need to train people to reflect on what they are doing so they can better manage their workloads. Focussing training on continuous improvement and human resource development is expected to lead to innovation.

A relatively strong emphasis on learning by individuals is evident in most councils. All councils have formal staff development programs used as tools to connect individuals with organisational goals, by enhancing skills and knowledge to equip staff to achieve these goals. Programs also inform staff about organisational goals and objectives. One council identified a range of skill shortages and training needs, such as managing work teams, holding meetings, and how to make decisions. Other training needs include stress management, relationship management, managing the balance between home and professional lives, contract management, financial skills, budgeting skills, and using financial performance reports. However, budgetary constraints mean that not all training needs are addressed.

Learning and change

Learning is also required to replace intellectual capital bought by the private sector, following significant downsizing experienced by all councils due to the mandated reforms of the government. The private sector has purchased the industry expertise needed to prepare tenders and bids for contracting out.

One council has implemented an organisation-wide integrated learning and change program, implemented through focus groups and workshops. The issues discussed and resolved in these focus groups include the future structure of the council, how to be competitive, growing people in their jobs, and contributing to the planning process. Specific training needs

(particularly financial training) are addressed, as is encouraging managers and staff to challenge the status quo. This program is linked to the corporate plan, so is driven by strategic issues. In other councils, change and learning was observed to be *ad hoc* and unrelated to espoused strategy.

Empowerment and learning

Empowerment of lower level staff is necessary if government is to adopt a performance orientation culture (Dixon et al, op. cit.). In this study empowerment is viewed by respondents as an essential change to promote improvement and learning: *'the more people are involved in decision making, the more they are committed to participate in future problem solving task.'* However, some councils have had mixed results, with hierarchical power structures still in evidence in supposedly empowered teams. Although empowerment is seen to be essential, gaining commitment from staff can be problematic. Staff may not believe that they are truly empowered: *'managers believe they empower people to change processes, but they don't measure this and don't know'*. The theme of lack of performance information was again raised and is seen as a barrier to full empowerment. Staff need information on their performance and on alternatives before they feel competent to make decisions.

Cultural change and continuance improvement

Interviewees frequently commented that cultural change is a precursor to continuous improvement and that cultural change programs are necessary. Several councils were undertaking staff attitude surveys, one on a six-monthly basis to map changes in attitudes. One council described the need to *'identify where we are before we can develop change programs'*. In different areas of the organisation, *'tribal, rules based and consensus cultures'* are all in evidence. Although a change program for staff had been suggested by managers it had been refused funding by councillors.

Cultural change needs to vary within councils. Significant cultural change has occurred in provider groups, which are now working in a business paradigm, competing against the business sector for the right to maintain their jobs. These groups are subject to performance measurement, being evaluated against outside tenders in the initial bidding process, and subsequently measured on a continuing basis to ascertain any profits, which may accrue to the employees.

Union presence

By comparison, client groups are still largely working in the old public service paradigm. Their performance may be measured in terms in budget variances, but there are no rewards in getting it right and few sanctions for getting it wrong. It was noted that in councils with a heavy union presence, performance rewards schemes (which may help in cultural change) are difficult to implement for any group. During the interviews Unions were described as fighting against innovation, being divorced from reality and not adding value. Councils which had experienced a reduced union presence reported increased flexibility and innovation.

7.5. Conclusion

Industrial awards (i.e. universal pay structure) under which local government employees were employed did not provide for the measurement of individual performance for remuneration or evaluation purposes. Some limited performance evaluation took place for the purposes of deciding on staff development needs in some council, as this was permitted under the industrial award. Based on the survey presented in this chapter the overall individual performance measurement and accountability processes in the British local governments have vastly increased from a base of virtually zero measurement just a few years ago to the current position of widespread performance measurement for accountability, performance-based rewards (not necessarily cash) and staff development purposes. Overall, the reasons given by

local government officers in this study for the increased use of performance measures were: pressure from central government; compulsory competitive tendering; changing culture and attitudes among local government managers.

The study has further observed that objectivity of staff appraisal processes leads to equitable assessment of PRP. Staff appraisal system provides a formal opportunity for a manager and an individual to reflect on last year's performance and development. It is a system, which facilitates future performance plans, helps to identify skills needed to undertake these action plans and explore development opportunities, which in turn will encourage optimum performance.

Despite this increased use of performance measures the authorities are consistently experiencing difficulties in developing and using performance measures. However, the factors that have motivated the councils to continue adopting them are: (1) The increased accountability to environmental and process stakeholders, including both the central government and the local community; (2) The recognition by the managers of the implicit value of performance measures in enhancing performance and accountability. In particular the introduction of practices such as 'Best Value', contracting-out, market-testing, etc.; and (3) The relevance of performance measurement and accountability processes to the annual 'Corporate Performance Plans' as a requirement by the central government.

Important ingredients of a PM scheme are performance agreements, rewards and sanctions after the performance measurement phase. It is this attribute which was emphasized in the main hypothesis of this study that the satisfactoriness of a motivation policy is a function of, among other factors, an objective performance measurement scheme. The balanced scorecard approach has also featured to be a useful analytical tool in measuring performance. Contrary to the expectation of this study, overwhelming majority of respondents have disagreed to

subscribe to the statement that performance-pay incentive schemes help organizations to develop clear, specific, and measurable performance objectives.

Chapter Eight

CASE 3: SURVEY ON EQUITY PERCEPTIONS ABOUT PERFORMANCE-PAY REWARD SYSTEMS

8.0. Introduction

Perception of equity of a performance-pay reward system is singled out by the main hypothesis of this study as one of the three robust measures of “goodness of fit” of an incentive and motivation policy in organisations. Others are organisational capacity and cultural issues, as examined in chapter six and objectivity of performance measurement and accountability processes as examined in chapter seven above. The essence of examining the dimensions of equitable performance-pay reward systems is based on the growing interest in applying PRP incentive schemes to public sector employees in OECD countries, and the overwhelming debate about the appropriateness of this practice in public sector.

This chapter presents research findings and analyses from the survey questionnaire (see Appendix C), and interviews about issues relating to dimensions of an equitable performance-pay reward system. The questionnaire is designed to elicit data necessary to address twelve key practical tests or dimensions of equitable performance-pay rewards systems as propounded by Kelly and Monks (op. cit).

The key parameters of an equitable performance-related incentive scheme assumed to be:

- (1) Acceptability of the performance-pay linkage principle: *How do local government managers perceive the principle of linking pay to performance?*
- (2) Pay as a motivator: *Is monetary incentive package a motivator in a public sector environment?*
- (3) Objectives of the scheme: *What are the common purposes or objectives of operating a performance-pay incentive scheme in the local government?*
- (4) Success of the scheme: *Do British local government managers perceive PRP as a successful strategy to motivating staff?*
- (5) Effect on performance: *What effect has PRP schemes have on individual*

performance of local government managers?

- (6) Drawbacks of the scheme: *What are the drawbacks of PRP schemes in the British local governments?*
- (7) Short-termism: *What impact has PRP have had on short-termism, target setting and feedback?*
- (8) Objectivity of performance-reward links: *Has PRP been able to establish a link between individual performance and pay awards?*
- (9) Team spirit: *What effect has PRP have had on team-spirit?*
- (10) Joint Consultation: *What role does joint consultation play in goal-setting within a performance management framework?*
- (11) Impact on performance: *Has the improvements or otherwise of the overall performance been attributable to performance-pay incentives?*
- (12) Attitude and discontent survey: *What is the general attitude of chief officers in the British local governments towards PRP schemes and what are the main sources of discontent about them if any?*

The thesis assumes that the success of an incentive policy is a positive indicator or dimension of an equitable performance-related incentive policy. Therefore, the responses to these questions were all expected to address the main question of what attributes of performance-pay scheme makes a successful employee motivation policy in an organisation. Please note that where applicable for reasons of confidentiality references for the quotes from interviews etc will not disclose specific names of individuals or their authorities.

8.1. The acceptability of performance-pay linkage principle

One of the controversial issues that arose from the literature review was concerning the principle of linking performance to pay as a motivational device to public sector employees. Therefore this study has examined this issue by surveying the perception of senior local government managers about the degree to which the principle of linking pay to performance is acceptable amongst managerial staff. The managers were therefore asked to give their personal views about four key questions (see Appendix C, questions 1.1 through 1.4 inclusive). Their responses are presented in tabular and graphical format in Tables 8.1.1 through 8.1.4 inclusive below.

To start with the respondents were asked to comment on the statement: “*The principle of relating pay to performance is essentially a good one.*” Their responses were collated using the SPSS and are presented in Table 8.1.1 below.

Table 8.1.1: The principle of relating pay to performance is essentially a good one

	Freq	%	Cum(%)
Too busy	5	7.1	7.1
Strongly agree	27	38.6	45.7
Agree	21	30.0	75.7
No view	5	7.1	82.9
Disagree	12	17.1	100.0
Total	70	100.0	

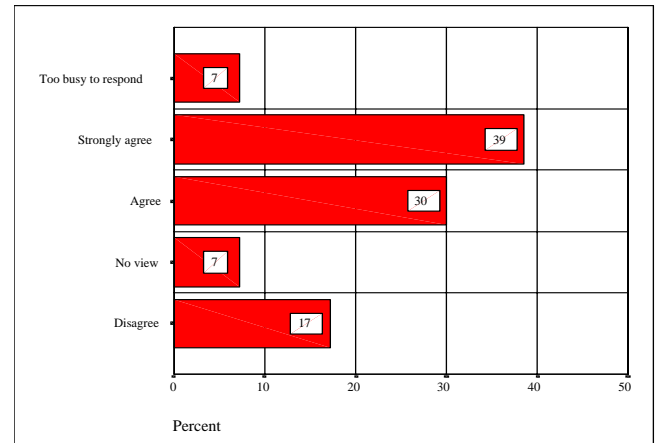


Table 8.1.2: A performance-based incentive scheme is a good idea for managerial staff

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	14	20.0	27.1
Agree	30	42.9	70.0
No view	9	12.9	82.9
Disagree	12	17.1	100.0
Total	70	100.0	

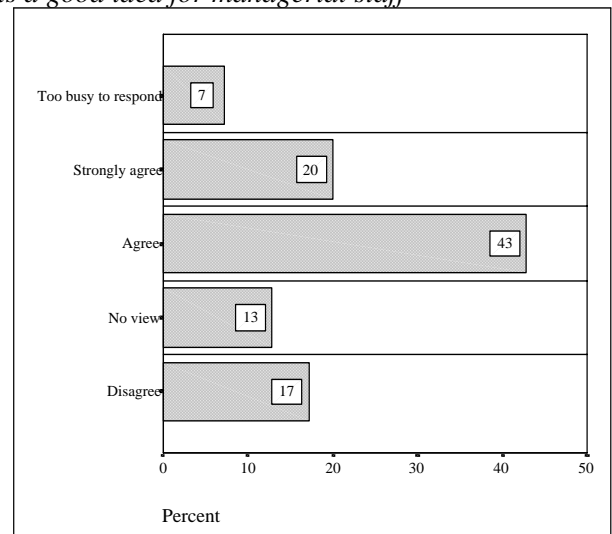


Table 8.1.3: The idea of performance-based incentive scheme is essentially unfair

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	3	4.3	11.4
Agree	8	11.4	22.9
No view	10	14.3	37.1
Disagree	34	48.6	85.7
Strongly disagree	10	14.3	100.0
Total	70	100.0	

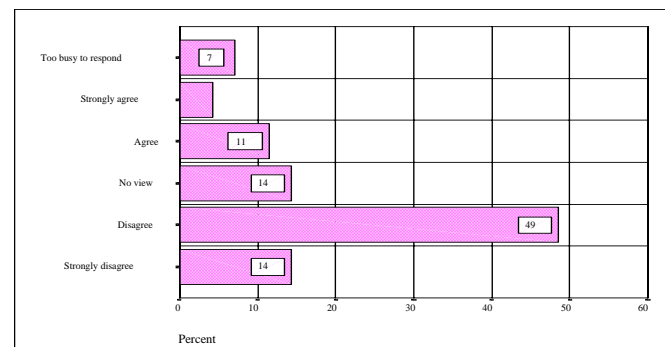
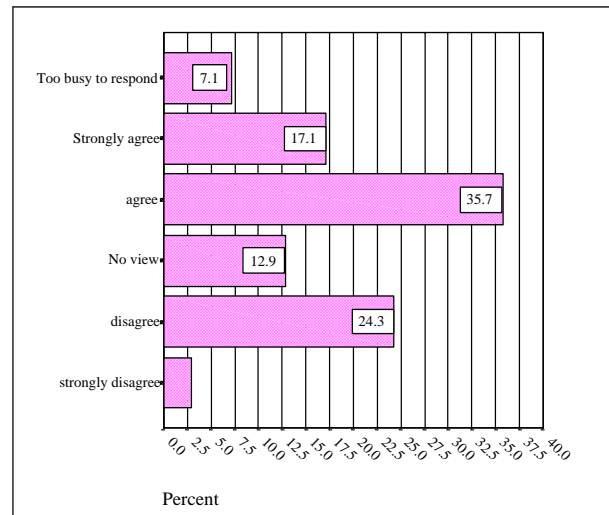


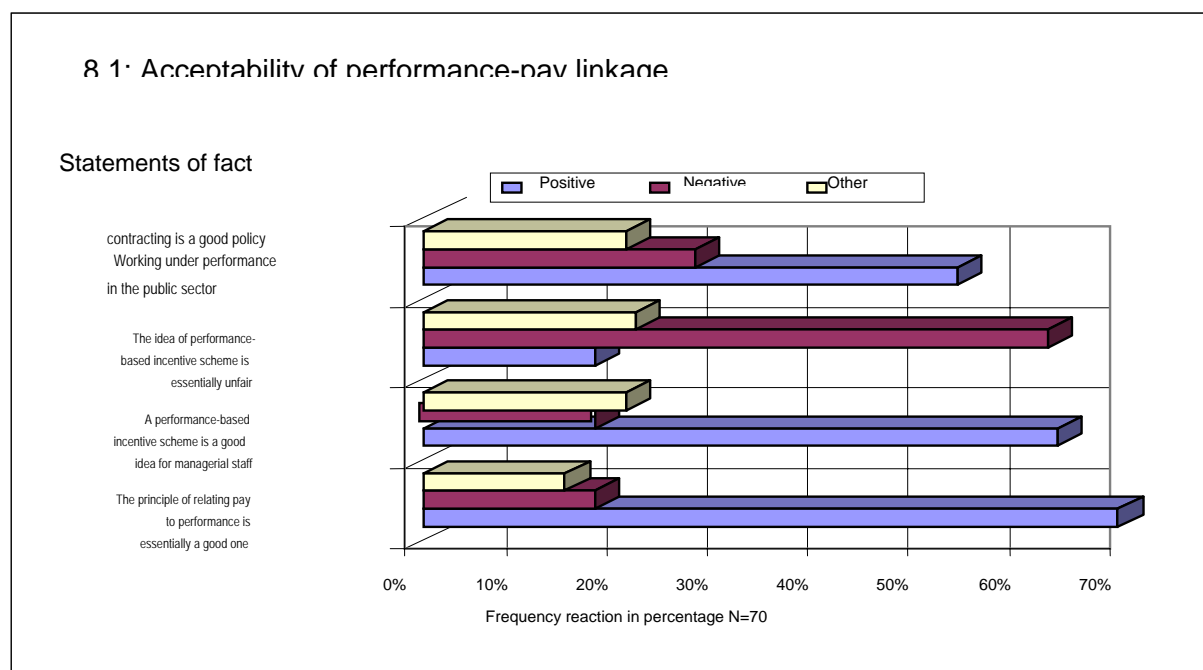
Table 8.1.4: Working under performance contracting is a good policy in the public sector

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	12	17.1	24.3
Agree	25	35.7	60.0
No view	9	12.9	72.9
Disagree	17	24.3	97.1
Strongly disagree	2	2.9	100.0
Total	70	100.0	



Analysis:

The discussion of these responses are summarised as follows. The perceptions of local government managers about the acceptability of the principle of linking pay to performance of public sector employees was assessed by asking the managers to give their verdict on four different but similar questions. These responses are summarised and presented in a bar chart format as follows:



Overwhelmingly the managers have expressed general support and acceptability of the principle of linking pay to performance and they perceive such a scheme to be a good idea for managerial staff. Similarly more than half of the respondents demonstrate that they prefer to work under performance contracts which confirms that the policy is generally acceptable in the public sector. In addition to these positive responses in support of the performance-pay linkage principle, more than 60 percents of the managers do not perceive the schemes to be essentially unfair in the public sector. This demonstrates that although the performance-pay linkage principle is acceptable in the public sector environment, it is also fairly managed or operated.

This was however, contradicted by the responses to the statement seeking to assess the degree of fairness of PRP schemes: *'Do you think that there is a need for an appeals system?'* Two thirds (65 per cent) replied positively while 30 per cent disagreed. The data indicates that most beneficiaries of the schemes are not fairly treated hence high demand for an appeals system. It may also explain the pressure from potential beneficiaries of the schemes who are excluded from the bracket and who would like the current scope of the scheme to be more inclusive.

8.2. Pay as a Motivator and its effect on performance

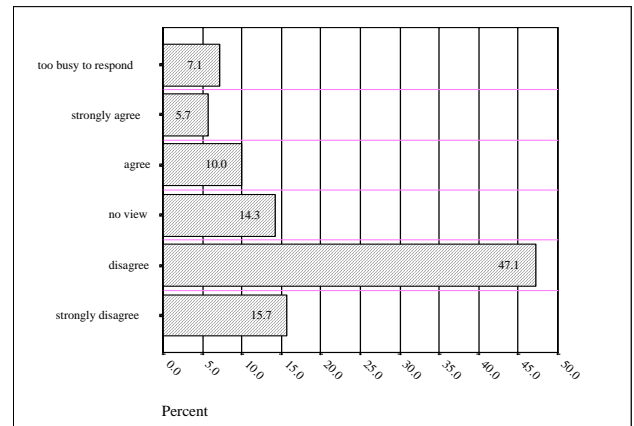
The second dimension or practical test of an equitable performance-pay reward system is its ability to motivate the target beneficiaries. Therefore, the respondents were asked to give their personal views about how they perceive the policy of pay as a performance-related incentive. The views were to be given in response to three different statements (see question 2.0 in Appendix C).

(i) Pay as a motive for work

Responses to the first statement *"The most important thing about a job is pay"* are presented in the following table and bar chart as they were processed using the SPSS program.

Table 8.2.1: The most important thing about a job is pay

	Fre	%	Cum(%)
Too busy to	5	7.1	7.1
Strongly agree	4	5.7	12.9
Agree	7	10.0	22.9
No view	10	14.3	37.1
Disagree	33	47.1	84.3
Strongly disagree	11	15.7	100.0
Total	70	100.0	

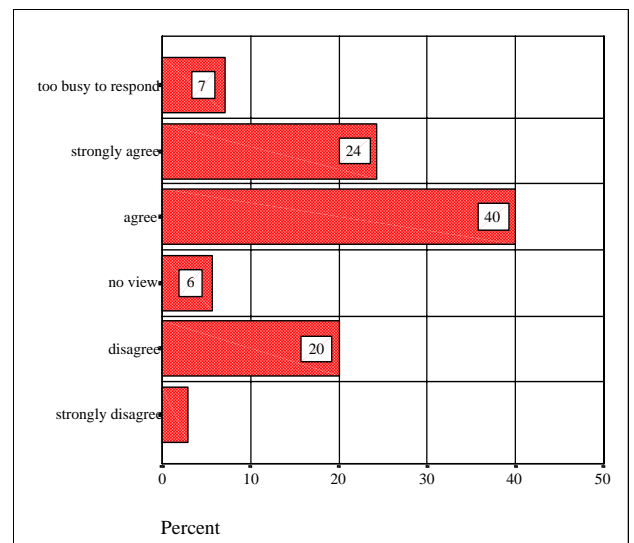


(ii) Top salary for top job preference

Their responses to the second statement “*The kind of job I like is the one that pays top salary for top job*” were analyzed using SPSS program and are presented in Table 8.2.2 and in its related Bar Chart below.

Table 8.2.2: The kind of job I like is the one that pays top salary for top job

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	17	24.3	31.4
Agree	28	40.0	71.4
No view	4	5.7	77.1
Disagree	14	20.0	97.1
Strongly disagree	2	2.9	100.0
Total	70	100.0	

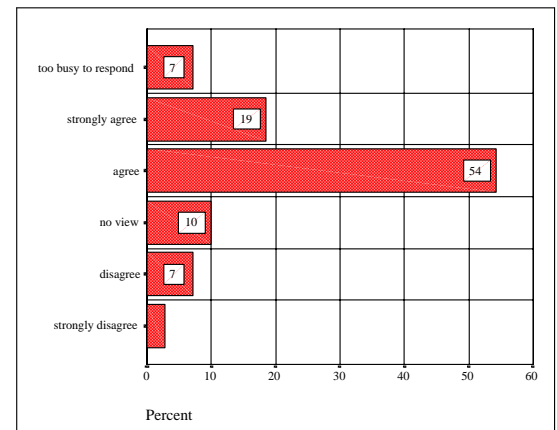


(iii) Adequacy of Feedback, Feed-forward information system

Finally the managers were asked to comment on the third statement “*I receive a considerable amount of feedback concerning the quality of output on my job*”. Their responses to this statement are presented in Table 8.2.3 and in the corresponding Bar Chart below.

Table 8.2.3: I receive a considerable amount of feedback concerning quality of output on my job.

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	13	18.6	25.7
Agree	38	54.3	80.0
No view	7	10.0	90.0
Disagree	5	7.1	97.1
Strongly disagree	2	2.9	100.0
Total	70	100.0	



Analysis:

When respondents were asked to give their views on the statement: *'the most important thing about a job is pay,'* a significant number of respondents (63% of 70 respondents) disagreed. A minority of 16% of the same sample agreed with this statement and 21% had no view whatsoever (see table 8.2.4 below).

In contrast, 64 per cent agreed with the statement: *'the kind of work I like is one that pays top salary for top performance'*, and 23 percent disagreed with the statement. This indicates the relevance of highly paid work to the respondents, though it may not have featured as the primary source of motivation for the job. The data also indicate that those who desire the kind of job that pays top salary for top performance also believe that PRP encourages them to give sustained high level of performance at work. These responses are summarised in the Table 8.2.4 below.

Table 8.2.4: Summary of perceptions about Pay as a motivator and its impact

N = 70	Agree %	Disagree %	No View %
(i) The most important thing about a job is pay	16	63	21
(ii) The kind of work I like is the one that pays top salary for top performance	64	23	13
(iii) Producing high quality work is rewarded with more pay	47	33	20
(iv) PRP has no effect on my work performance	43	40	17
(v) I receive a considerable amount of feedback on the quality of my job	73	10	17

Generally this summary presents an illustration of a rather weak positive correlation between an improvement in performance and improved communication with the individual supervisor. It would appear that PRP has provided greater opportunity to interact on a more frequent basis with the supervisor for discussing the focus of direction of the targets set. In addition, the statement '*PRP makes me focus on what I'm meant to achieve*' also correlated positively with an improvement in performance. This trend consistently emerged as an important feature of the PRP system. For example, one half of the managers in the follow-up interviews mentioned that PRP had helped them to *focus* on certain objectives.

Further analysis of the data summarised in Table 8.2.4 above shows mixed opinions as to whether or not the production of high quality work would actually result in more pay and whether the PRP scheme genuinely affected work performance. Just under half, (47 per cent), of the respondents agreed that producing high quality work will improve payment, while 40 per cent disagreed with the statement concerning the effect of PBIs on their performance.

8.3. Objectives of PRP

Different people perceive the same things differently. Similarly, the study wanted to find out how local government managers perceive the purpose for which an incentive scheme such as performance-pay is operated as one of the dimensions of the PM model. To do this the managers were asked to give their views on the reasons for introducing a performance-pay incentive scheme in their organisations.

Then for simplicity, eight feasible objectives were generated (see question 3.0 in Appendix C) and the respondents were asked to rank them between 1 and 8 as highest and lowest, respectively. These responses are presented in Table 8.3.1 through 8.3.8 inclusive and also in their corresponding Bar Charts below.

Table 8.3.1: The main purpose of operating an incentive scheme is to reward good performance

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Exceptionally highest	6	8.6	15.7
Highest	7	10.0	25.7
Higher	5	7.1	32.9
High rank	4	5.7	38.6
Middle rank	4	5.7	44.3
Low rank	5	7.1	51.4
Lower	2	2.9	54.3
Lowest	5	7.1	61.4
Not applicable	27	38.6	100.0
Total	70	100.0	

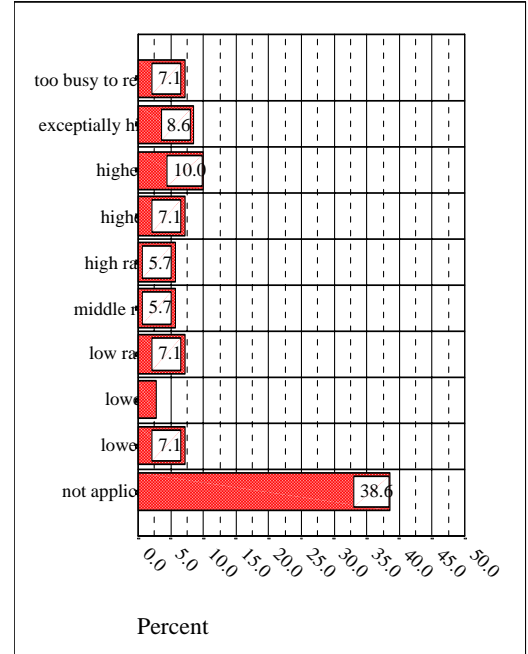


Table 8.3.2: The main purpose of operating an incentive scheme is to remove the bargaining process away from trade unions

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Lowest	30	42.9	50.0
Not applicable	35	50.0	100.0
Total	70	100.0	

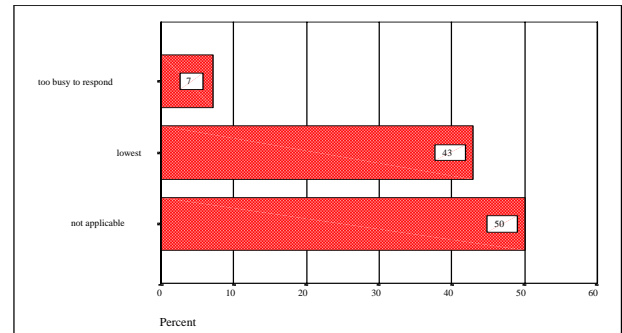


Table 8.3.3: The main purpose is to reinforce existing culture, values and performance expectations

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Highest	9	12.9	20.0
Higher	4	5.7	25.7
High	6	8.6	34.3
Middle rank	5	7.1	41.4
Low	7	10.0	51.4
Lower	6	8.6	60.0
Lowest	10	14.3	74.3
Not applicable	18	25.7	100.0
Total	70	100.0	

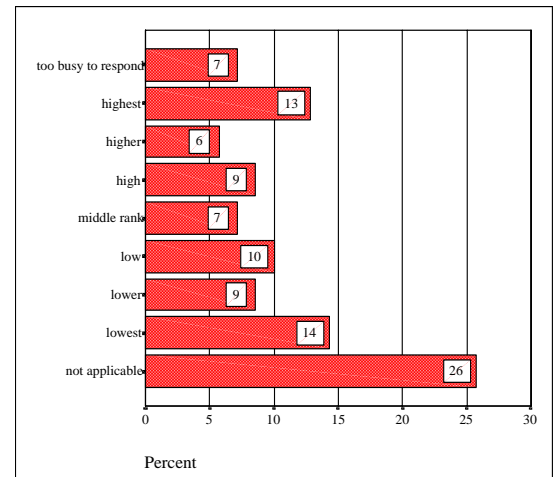


Table 8.3.4: To promote organisational change

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Highest	1	1.4	8.6
Higher	2	2.9	11.4
High	7	10.0	21.4
Middle	7	10.0	31.4
Low	7	10.0	41.4
Lower	2	2.9	44.3
Lowest	9	12.9	57.1
Not applicable	30	42.9	100.0
Total	70	100.0	

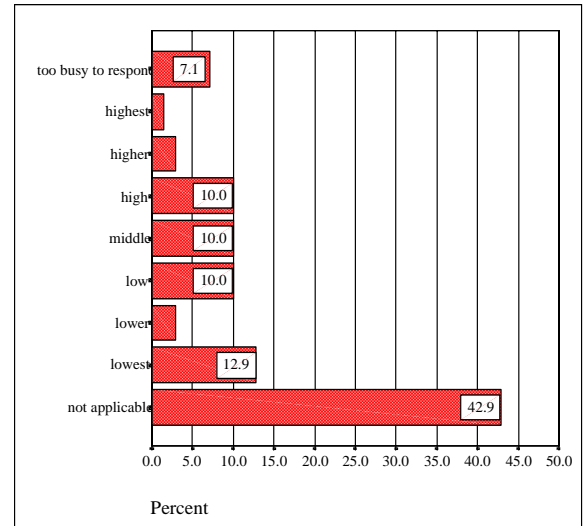


Table 8.3.5: To motivate employees

	Freq	%	Cum(%)
Too busy	5	7.1	7.1
Exceptionally highest	16	22.9	30.0
Highest	13	18.6	48.6
Higher	10	14.3	62.9
High	5	7.1	70.0
Middle	3	4.3	74.3
Low	2	2.9	77.1
Lowest	1	1.4	78.6
Not applicable	15	21.4	100.0
Total	70	100.0	

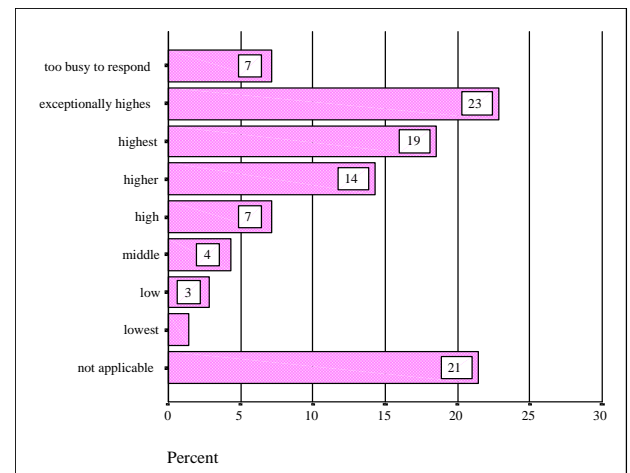


Table 8.3.6: To increase commitment to the organisation

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Exceptionally highest	2	2.9	10.0
Highest	18	25.7	35.7
Higher	8	11.4	47.1
High	14	20.0	67.1
Middle rank	5	7.1	74.3
Low	2	2.9	77.1
Lowest	1	1.4	78.6
Not applicable	15	21.4	100.0
Total	70	100.0	

The trend analysis of the responses in Table 8.3.6 above are presented in a Bar Chart format as follows:

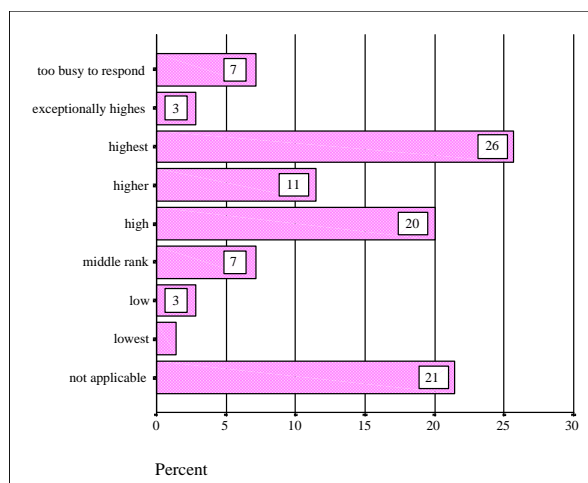


Table 8.3.7: To solve recruitment and retention of staff problem

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Exceptionally highest	6	8.6	15.7
Highest	14	20.0	35.7
Higher	10	14.3	50.0
High	9	12.9	62.9
Middle	4	5.7	68.6
Lowest	1	1.4	70.0
Not applicable	21	30.0	100.0
Total	70	100.0	

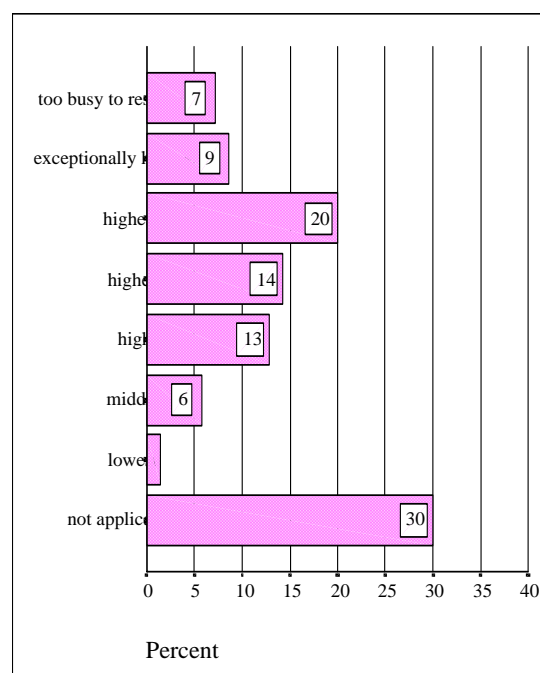
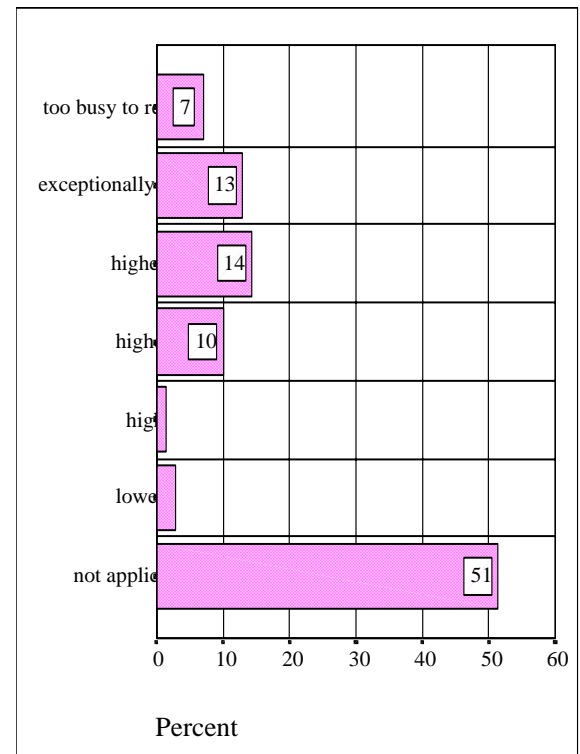


Table 8.3.8: To improve performance of the organisation

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Exceptionally highest	9	12.9	20.0
Highest	10	14.3	34.3
Higher	7	10.0	44.3
High	1	1.4	45.7
Lowest	2	2.9	48.6
Not applicable	36	51.4	100.0
Total	70	100.0	



Analysis:

The ranking of the managers' views on the reasons or objectives for introducing an incentive scheme, which rewards employees based on performance, are summarised in Table 8.3.9 below. The table displays the managers' views on the reasons behind the introduction of the scheme as proposed by the study.

Table 8.3.9: Summary of the Ranking of Objectives of the PRP Scheme

Ranked Objectives of PRP schemes	%
Rank 1. Improve performance of the organisation	57
Rank 2. To reward good performance	15
Rank 3. To motivate employees	9
Rank 4. Solve recruitment and retention of staff problem	9
Rank 5. Increase commitment to the organisation	4
Rank 6. Reinforce existing culture, values and performance expectations	2
Rank 7. To promote organisational change	2
Rank 8. To remove the bargaining process away from trade unions	2
N = 70	

Just over half of the 70 responding managers perceive that the primary objective of introducing a PRP scheme is to improve performance of the organisation. Other objectives are given less importance and issues such as the promotion of organisational change and the reduction in trade union influence, although well documented in the literature as objectives of PRP are not perceived to be of a significant importance in this study. Another contradictory response is the organisational culture and values being ranked 6th. It was postulated that this could feature to be one of the prominent dimensions of a satisfactoral value of a performance-related incentive policy.

8.4. Success of the Scheme

The study also wanted to find out how the managers perceived the success of performance-pay incentive schemes in their respective local authorities. Therefore, they were asked to give their opinions on two different statements (see question 4.0 in Appendix C). Their responses are presented in Tables 8.4.1 and 8.4.2 followed by corresponding Bar Chart as generated by SPSS.

Table 8.4.1: Statement 1: Performance-based incentive scheme has been successful in achieving an overall increase in organisational performance in the local government system

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	12	17.1	24.3
Agree	23	32.9	57.1
No view	10	14.3	71.4
Disagree	12	17.1	88.6
Strongly disagree	4	5.7	94.3
Not applicable	4	5.7	100.0
Total	70	100.0	

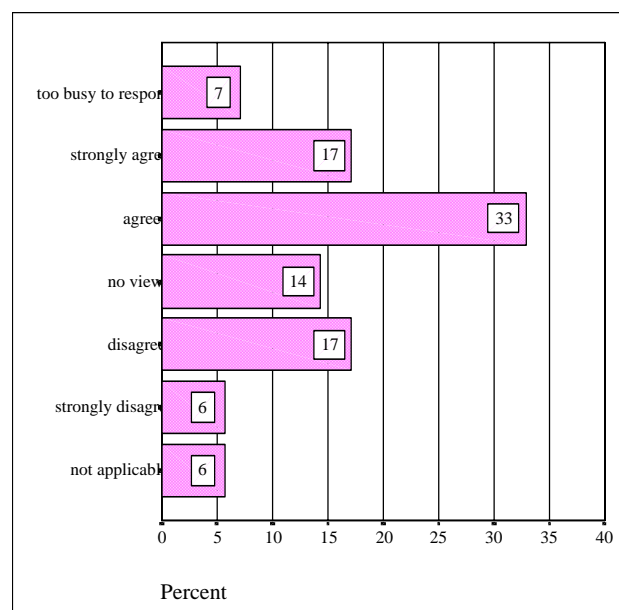
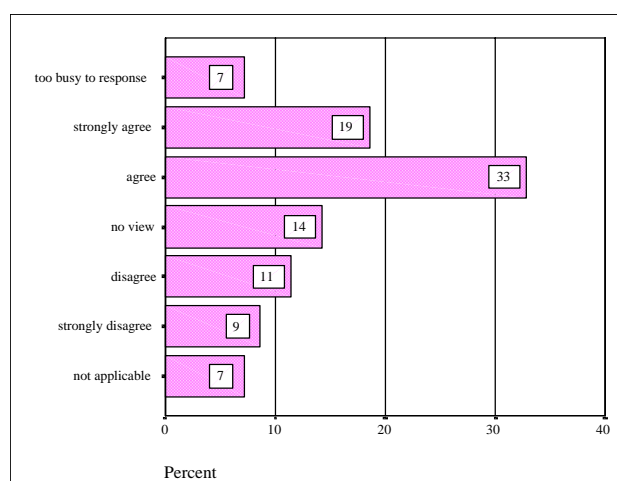


Table 8.4.2: Statement 2: Performance-based incentive scheme has provided the authority with a useful tool in the delivery of quality public services

Questionnaire responses	Freq	%	Cum(%)
Too busy to response	5	7.1	7.1
Strongly agree	13	18.6	25.7
Agree	23	32.9	58.6
No view	10	14.3	72.9
Disagree	8	11.4	84.3
Strongly disagree	6	8.6	92.9
Not applicable	5	7.1	100.0
Total	70	100.0	



In addition to the responses as presented above, during the interviews there were a number of measures commented on by the managers which were considered to be directly linked to the introduction of PRP and provided a more useful tool for assessing PRP's success. Two of these are as follows:

“I would quantify that success through the ISO 9000 scheme. Our reviews would indicate that management procedures are correct, quality scheme reviews ratings are being improved. Our customers...are now involved in the ISO 9000 and they are rating us and sending our ratings back to the ISO 9000, so customer ratings are

improving as well.” (Chief Officer).

“Customer service levels and marketing are very conscious of the targets being set, the key part of the equation. Definitely, improvement everywhere, working capital keeping it at most optimum level, marked improvement .” (Chief Officer).

Analysis:

Based on the evidence presented in section 8.4 above, table 8.4.3 summarises the responses to the two statements seeking to determine the success of the scheme as perceived by the managers.

Statement 1: *'Performance-based incentive scheme has been successful in achieving an overall increase in organisational performance in the local government system.*

Statement 2: *'Performance-based incentive scheme has provided the authority with a useful tool in the delivery of quality public services'.*

Table 8.4.3: Summary of Managers' Views about the Success of PRP

	Statement 1 (%)	Statement 2 (%)
Strongly Disagree	6	9
Disagree	17	11
No View	27	28
Agree	33	33
Strongly Agree	17	19
N = 70		

As Table 8.4.3 above shows, a half of the respondents agreed with both statements, while just less than 20% of the respondents disagreed with the statements. However, a sizeable minority had no view on both statements (i.e. 27 per cent on Statement 1 and 28 per cent had no view on statement two). This gives an impression that a substantial proportion of the respondents are of the view that PRP scheme is a successful policy in the British local government system.

Conversely, in the follow-up interviews and discussions, an improvement in overall performance, both organisational and individual, was stated as one of the priority objectives of the scheme. Although this securely indicates a measure of success, it is difficult to quantify it, as the statement is rather a general one; it does not specify the context of success, or indeed, how it is measured. The question is whether this improvement in performance was a direct result of the monetary incentive, or whether PRP brings additional benefits, which

create the motivational force for improving performance.

8.5. Effect of PRP on Performance

Perception of equity of the performance-pay incentive scheme was also examined from the viewpoint of the effect of the schemes on performance. The assumption here is that the more effective the PRP scheme on performance, the more equitable the managers perceive it to be. Therefore, managers were asked to give their personal views on five different statements (see question 5.0 in Appendix C) that were necessary to assess their overall perception about the schemes' effect on performance. The responses to these statements are presented in Tables 8.5.1 through 8.5.5 inclusive along with their corresponding Bar Charts.

Table 8.5.1: A performance-based incentive scheme makes me focus on what I'm meant to achieve

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	15	21.4	28.6
Agree	38	54.3	82.9
Disagree	7	10.0	92.9
Not applicable	5	7.1	100.0
Total	70	100.0	

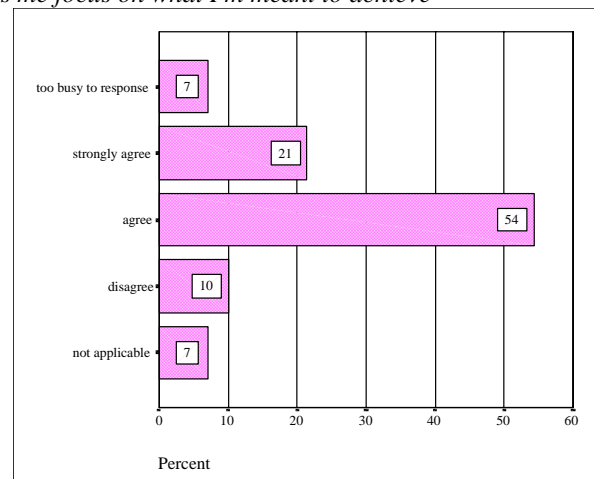


Table 8.5.2: A PBI scheme promotes improvement in organisational performance

Questionnaire responses	Freq	%	Cum (%)
Too busy to respond	5	7.1	7.1
Strongly agree	15	21.4	28.6
Agree	41	58.6	87.1
Disagree	8	11.4	98.6
Not applicable	1	1.4	100.0
Total	70	100.0	

The trend analysis of the responses in Table 8.5.2 above are presented in a Bar Chart format as follows:

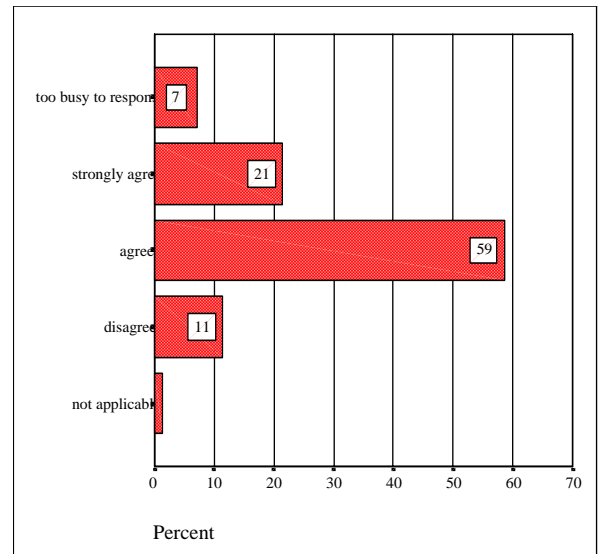


Table 8.5.3: An incentive scheme improves communication with the individual supervisor, the managers' supervisor and improvement in performance

responses	Freq	%	Cum (%)
Too busy	5	7.1	7.1
Strongly agree	8	11.4	18.6
Agree	29	41.4	60.0
No view	7	10.0	70.0
Disagree	13	18.6	88.6
Strongly disagree	4	5.7	94.3
Not applicable	4	5.7	100.0
Total	70	100.0	

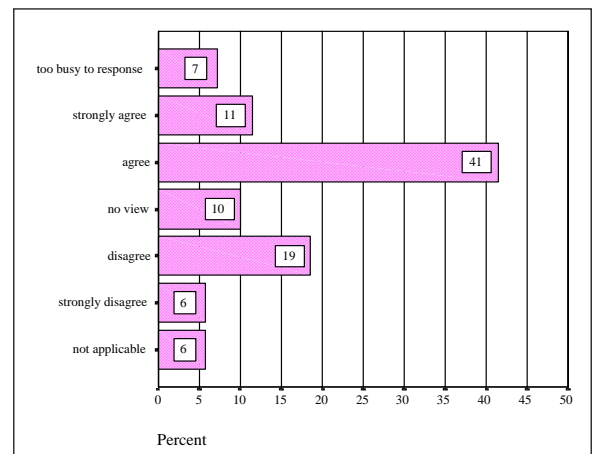


Table 8.5.4: A PBI scheme helps managers to focus on certain objectives

	Freq	%	Cum (%)
Too busy	5	7.1	7.1
Strongly agree	19	27.1	34.3
Agree	33	47.1	81.4
No view	4	5.7	87.1
Disagree	6	8.6	95.7
Strongly disagree	1	1.4	97.1
Not applicable	2	2.9	100.0
Total	70	100.0	

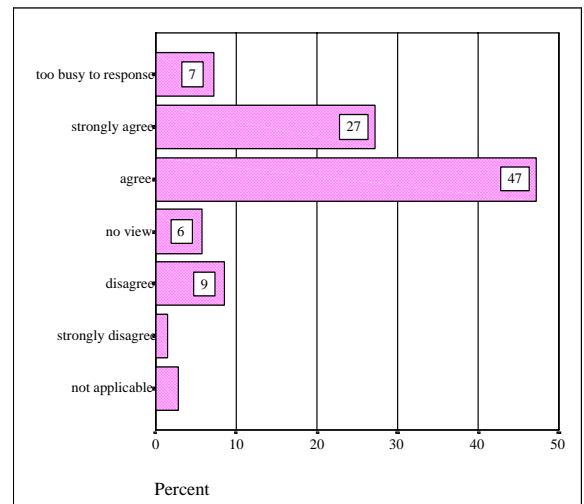
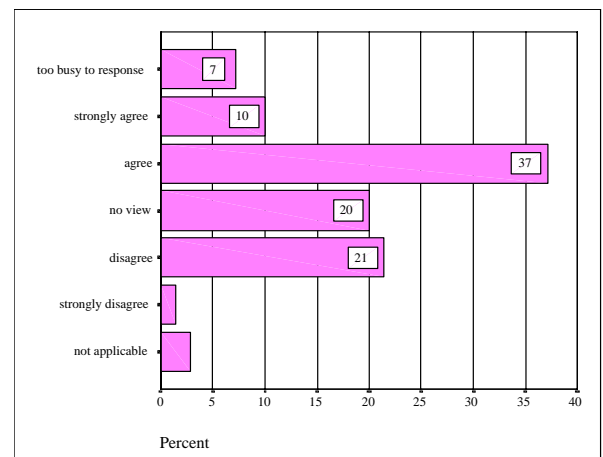


Table 8.5.5: A PBI scheme provides greater opportunity to interact on a more frequent basis with the supervisor for discussing the focus of direction of the targets set

Questionnaire	Freq	%	Cum (%)
Too busy	5	7.1	7.1
Strongly agree	7	10.0	17.1
Agree	26	37.1	54.3
No view	14	20.0	74.3
Disagree	15	21.4	95.7
Strongly disagree	1	1.4	97.1
Not applicable	2	2.9	100.0
Total	70	100.0	



Rarely have more than 20% of the respondents agreed that PRP has given them an incentive to change any specified form of their behaviour at work and raised organisational performance. Within even that total, the number of those who ‘strongly agree’ is very low, and is easily swamped by those who express strong disagreement.

8.6. Drawbacks with the Scheme

In the literature review and during the pilot study in Solihull Borough Council it was observed that performance-pay incentive schemes have had to be abandoned for some reasons. The study was then prompted to survey and establish if these failures were due to systematic

drawbacks across all sectors. Therefore, the respondents were asked to rank a range of possible drawbacks according to their relative importance. These responses are presented in Tables 8.6.1 through 8.6.7 inclusive below.

Table 8.6.1: The amount of reward involved is not enough to substantiate a change in performance

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Exceptionally highest	5	7.1	14.3
Highest	7	10.0	24.3
Higher	12	17.1	41.4
High	4	5.7	47.1
Middle rank	7	10.0	57.1
Low	9	12.9	70.0
Lower	2	2.9	72.9
Lowest	4	5.7	78.6
Not applicable	15	21.4	100.0
Total	70	100.0	

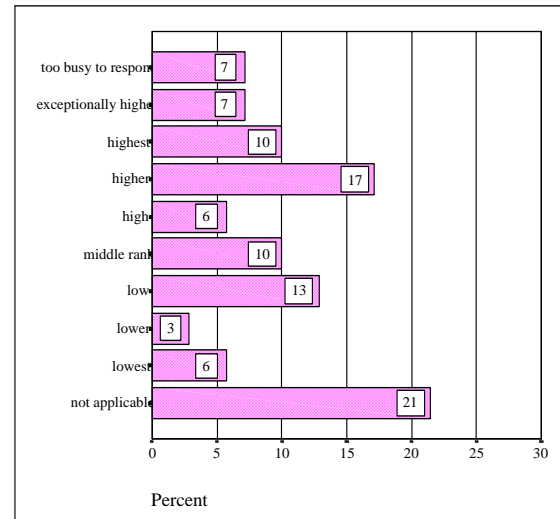


Table 8.6.2: PRP negatively affects team spirit, and co-operation can be jeopardised

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Exceptionally highest	1	1.4	8.6
Highest	12	17.1	25.7
Higher	12	17.1	42.9
High	6	8.6	51.4
Middle rank	6	8.6	60.0
Low	4	5.7	65.7
Lowest	8	11.4	77.1
Not applicable	16	22.9	100.0
Total	70	100.0	

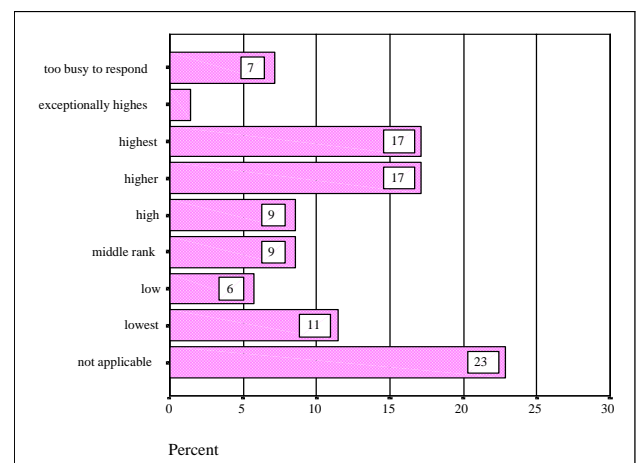


Table 8.6.3: Performance pay encourages employees to exercise a narrow focus on short-term quantifiable goals, neglecting long-term issues

responses	Freq	%	Cum(%)
Too busy	5	7.1	7.1
Exceptionally highest	2	2.9	10.0
Highest	8	11.4	21.4
Higher	13	18.6	40.0
High	5	7.1	47.1
Middle rank	3	4.3	51.4
Low	5	7.1	58.6
Lower	1	1.4	60.0
Lowest	9	12.9	72.9
Not applicable	19	27.1	100.0
Total	70	100.0	

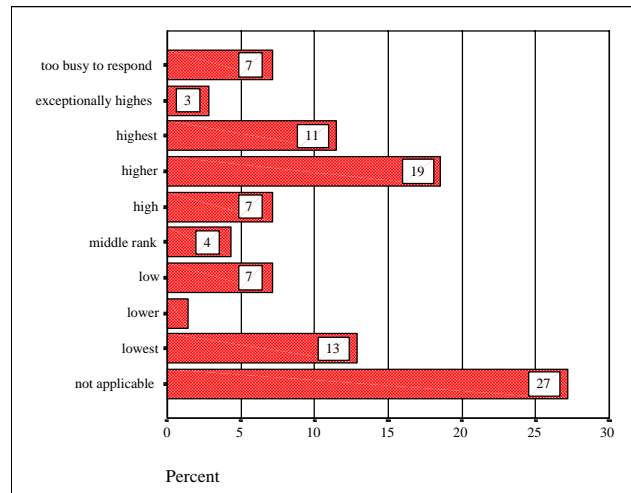


Table 8.6.4: Performance-based pay incentives are not successful in improving employee motivation

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
exceptionally highest	1	1.4	8.6
Highest	1	1.4	10.0
Higher	3	4.3	14.3
High	5	7.1	21.4
middle rank	16	22.9	44.3
Low	14	20.0	64.3
Lower	2	2.9	67.1
Lowest	10	14.3	81.4
not applicable	13	18.6	100.0
Total	70	100.0	

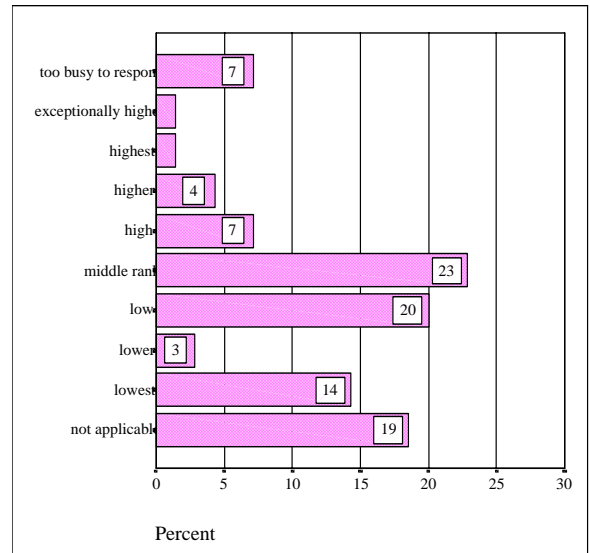


Table 8.6.5: It is principally unfair in discriminating between individual contributions

responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
exceptionally highest	5	7.1	14.3
Highest	10	14.3	28.6
Higher	13	18.6	47.1
High	2	2.9	50.0
middle rank	3	4.3	54.3
Low	3	4.3	58.6
Lower	1	1.4	60.0
Lowest	1	1.4	61.4
not applicable	27	38.6	100.0
Total	70	100.0	

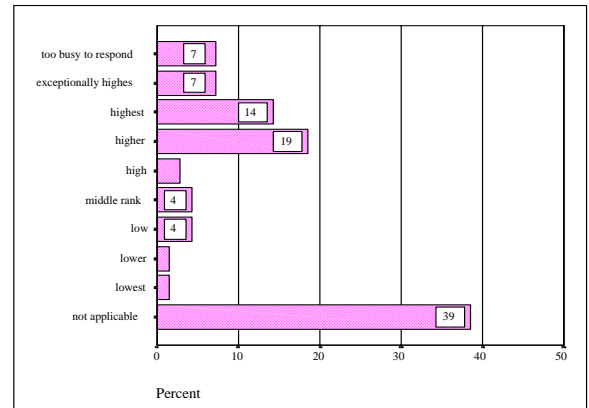


Table 8.6.6: Difficult to measure individual performance objectively

responses	Freq	%	Cum(%)
Too busy	5	7.1	7.1
Exce. highest	4	5.7	12.9
Highest	8	11.4	24.3
Higher	10	14.3	38.6
High	8	11.4	50.0
middle rank	5	7.1	57.1
Low	2	2.9	60.0
Lowest	1	1.4	61.4
not applic.	27	38.6	100.0
Total	70	100.0	

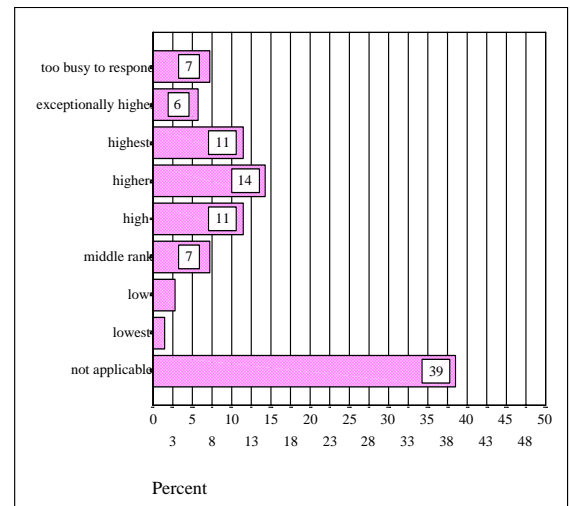
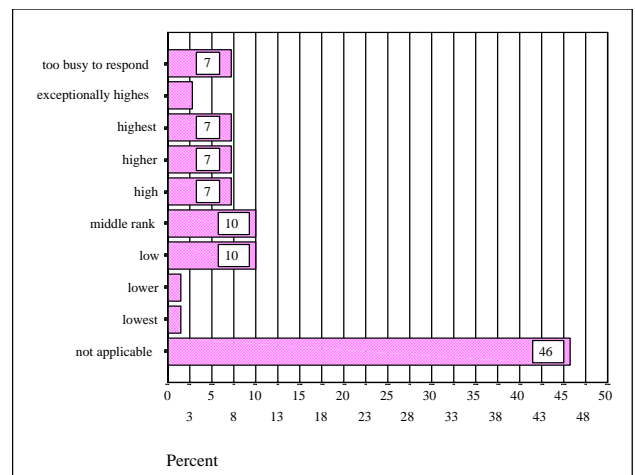


Table 8.6.7: Assumes that money is the best reward

responses	Freq	%	Cum(%)
too busy	5	7.1	7.1
Excep. highest	2	2.9	10.0
Highest	5	7.1	17.1
Higher	5	7.1	24.3
High	5	7.1	31.4
middle rank	7	10.0	41.4
Low	7	10.0	51.4
Lower	1	1.4	52.9
Lowest	1	1.4	54.3
not applicable	32	45.7	100.0
Total	70	100.0	



Analysis:

Based on the summary of responses in Table 8.6.8 below, 42 per cent of managers ranked the measurement of performance as the greatest difficulty process when operating the PRP scheme. The second greatest (21 per cent) drawback with the scheme involved a short-term focus on objectives, to the neglect of longer-term issues. This is discussed in the next subsection.

Table 8.6.8: Summary of Ranked Drawbacks with the PRP scheme

Statement	%
Rank 1. It is difficult to measure individual performance objectively	42
Rank 2. PRP encourages employees to exercise a narrow focus on short-term quantifiable goals, neglecting long term issues	21
Rank 3. The amount of pay involved is not enough to substantiate a change in performance	12
Rank 4. It assumes that money is the best reward	9
Rank 5. It is not successful in improving employee motivation	8
Rank 6. PRP negatively affects teamwork, & co-operation can suffer	6
Rank 7. It is principally unfair in discriminating between individual contributions	2
N = 70	

The third greatest (12 per cent) drawback with the scheme involved a lack of reward. That is the pay package is normally far below the prevailing market rate. This coincides with concerns reiterated in the literature that pay being an extrinsic reward system, will only have a significant impact on performance, as a motivational device if the amount involved is substantially large enough to attract the attention of the managers. The other drawbacks listed received relatively little attention among the managers.

8.7. Short-term Objectives, Targets and Feedback

Equity of an incentive scheme based on performance may be perceived to be in existence if there is a plausible balance between short and long-term performance objectives. That is long-term objectives should not be ignored for the sake of maximising short-term objectives designed to facilitate the easy earning of performance-pay rewards. In order to survey the views

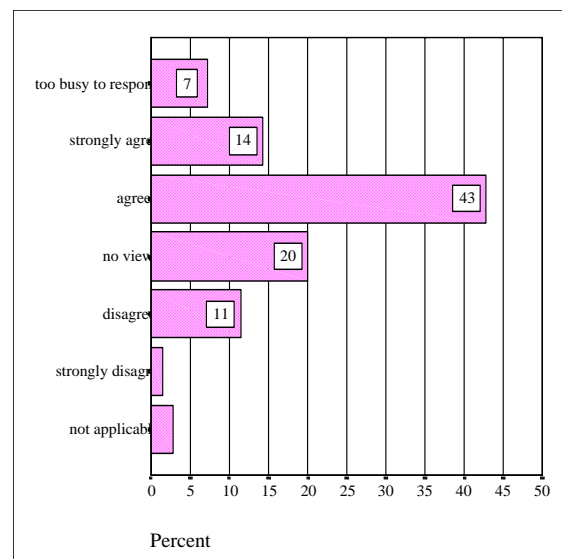
of local government managers about this issue, the respondents were asked to comment on the statement of whether in practice there is over-emphasis on short-term work objectives as a common difficulty with performance-based incentive schemes.

Their views are presented in Tables 8.7.1 through 8.7.3 inclusive and in the corresponding trend analyses in Bar Charts.

Table 8.7.1: In practice, there is over-emphasis on short-term work objectives as a common difficulty with performance-based incentive schemes

responses	Freq	%	Cum(%)
Too busy	5	7.1	7.1
Strongly agree	10	14.3	21.4
Agree	30	42.9	64.3
No view	14	20.0	84.3
Disagree	8	11.4	95.7
Strongly disagree	1	1.4	97.1
Not applicable	2	2.9	100.0
Total	70	100.0	

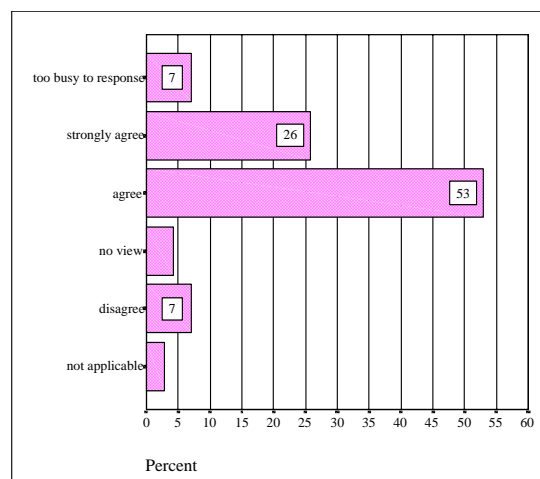
The trend analysis of the responses in Table 8.7.1 above are presented in a Bar Chart format as follows:



The second issue was to find out the views of local government managers about the relevance of performance targets upon which performance-pay packages are based. Their responses are presented in Table 8.7.2 and in the corresponding Bar Chart below.

Table 8.7.2: Targets may become irrelevant as a result of circumstances beyond the manager's direct control

	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	18	25.7	32.9
Agree	37	52.9	85.7
No view	3	4.3	90.0
Disagree	5	7.1	97.1
Not applicable	2	2.9	100.0
Total	70	100.0	



During the follow-up interviews, some managers indicated that targets may become irrelevant as a result of circumstances beyond the manager's direct control. As one respondent commented:

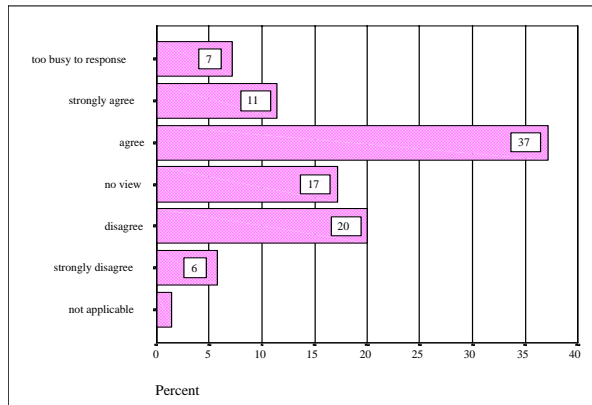
“It does not take into consideration the unexpected which necessitates an extremely high level of work on targets outside those set which might leave you in a position of not having achieved the set targets while having worked extremely hard .” (Chief Officer).

This comment summed up the feeling of many respondents on this issue and appeared to be the cause of genuine frustration amongst the managers. It may also be linked to the extent of feedback available to managers. Thus, when asked for their opinions on the statement about the extent of feedback they receive, only 48.5 per cent agreed, 11.4 % of which strongly agreed. The summary of their responses is presented in Table 8.7.3 and Bar Chart below.

Table 8.7.3: I am provided with a great deal of feedback and guidance on the quality of my work

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	8	11.4	18.6
Agree	26	37.1	55.7
No view	12	17.1	72.9
Disagree	14	20.0	92.9
Strongly disagree	4	5.7	98.6
Not applicable	1	1.4	100.0
Total	70	100.0	

The trend analysis of the responses in Table 8.7.3 above are presented in a Bar Chart format as follows:



The literature highlights an over-emphasis on short-term objectives as a common difficulty with PRP schemes (Flynn, op. cit.; Hughes, op. cit; and Hood, op. cit.), and this difficulty was found in the local authorities, with an over-emphasis on short-term objectives ranked as second on the list of drawbacks with the current scheme. Table 8.7.1 shows that 57.2 per cent of managers agreed with the statement that *'there is an over-emphasis on short-term work objectives'*, while only 12.8 per cent disagreed and 20 per cent of the managers were not prepared to express their views about this statement. During follow-up interviews one of the respondents commented that: *"Short-term goals can result in long-term neglect and the attitude of 'let next year look after itself' starts to creep in (CEO)."*

8.8. Performance and Reward Links

The respondents were asked to give their views on the three statements (see question 9.0 in Appendix C) that were intended to elicit their perception about links between performance and pay awards. Their responses to these three questions are presented in Tables 8.8.1 through 8.8.3 inclusive and in the corresponding trend analyses in Bar Charts below.

Table 8.8.1: Producing high quality work is rewarded with more pay

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
strongly agree	14	20.0	27.1
Agree	19	27.1	54.3
no view	18	25.7	80.0
Disagree	9	12.9	92.9
strongly disagree	5	7.1	100.0
Total	70	100.0	

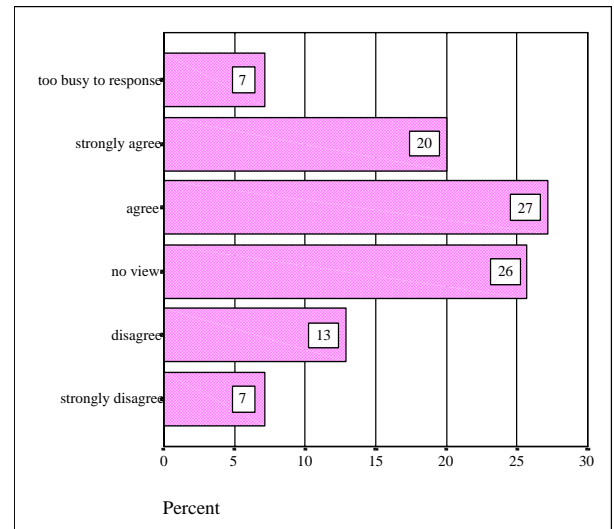


Table 8.8.2: PBI scheme has no effect on my work performance

	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	7	10.0	17.1
Agree	21	30.0	47.1
No view	5	7.1	54.3
Disagree	30	42.9	97.1
Strongly disagree	2	2.9	100.0
Total	70	100.0	

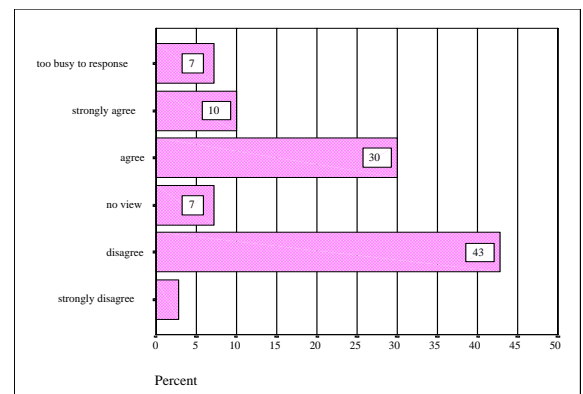
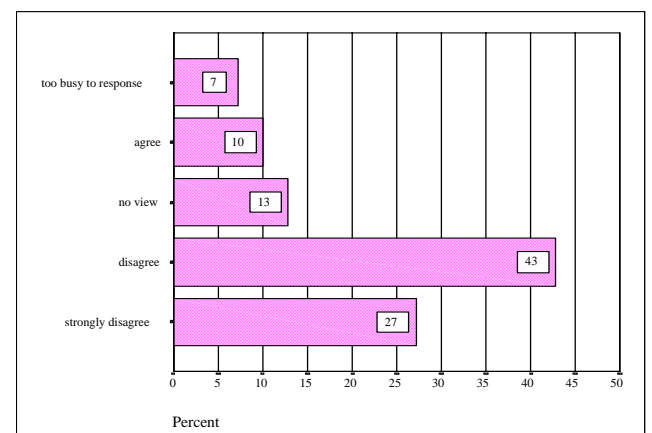


Table 8.8.3: The most important thing about a job is pay

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
Agree	7	10.0	17.1
no view	9	12.9	30.0
Disagree	30	42.9	72.9
strongly disagree	19	27.1	100.0
Total	70	100.0	



8.9. Effects of PRP on Team-spirit

During the pilot study interviews and literature reviews, it was pointed out that one of the reasons for abandoning PRP schemes is its negativity effects on team spirit amongst employees – that, it is divisive, therefore not implementable. To test the validity of this claim, 70 local government managers were asked to give their personal views about three different statements (see question 10.0 in Appendix C) that were designed for the purpose. The views of the managers about these statements are presented in Tables 8.9.1 through 8.9.3 inclusive and in the corresponding trend analyses in Bar Charts.

Table 8.9.1: PBI schemes contribute to more effective teamwork

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
strongly agree	3	4.3	11.4
Agree	22	31.4	42.9
no view	19	27.1	70.0
Disagree	15	21.4	91.4
strongly disagree	6	8.6	100.0
Total	70	100.0	

The trend analysis of the responses in Table 8.9.1 above are presented in a Bar Chart format as follows:

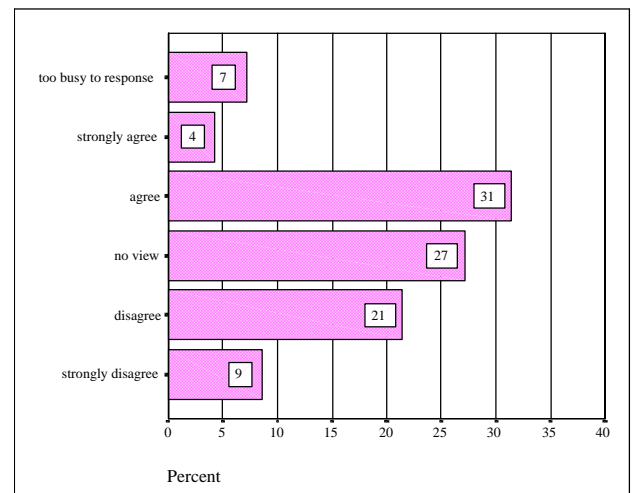


Table 8.9.2: PBI schemes negatively affect teamwork, and co-operation can suffer

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
strongly agree	3	4.3	11.4
Agree	12	17.1	28.6
no view	20	28.6	57.1
Disagree	11	15.7	72.9
strongly disagree	17	24.3	97.1
not applicable	2	2.9	100.0
Total	70	100.0	

The trend analysis of the responses in Table 8.9.2 above are presented in a Bar Chart format as follows:

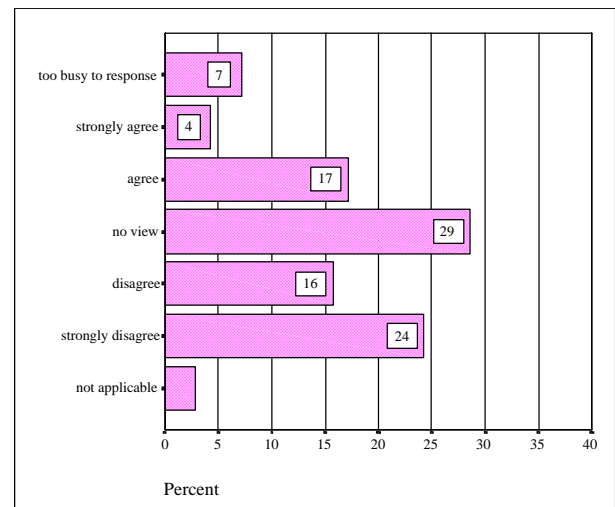
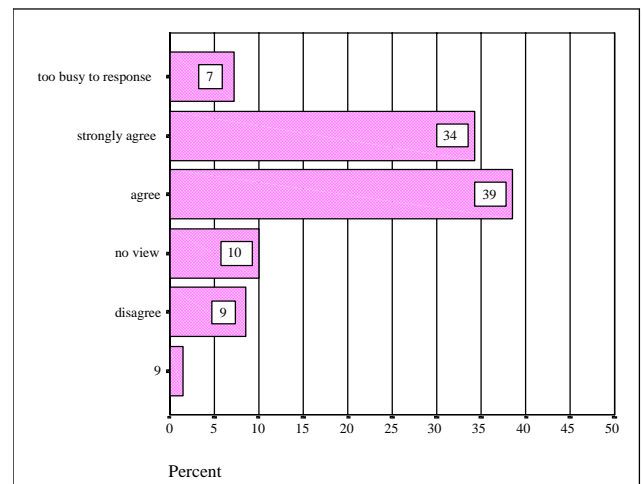


Table 8.9.3: There is a need for an appeals system

Responses	Freq	%	Cum(%)
too busy	5	7.1	7.1
Strongly agree	24	34.3	41.4
Agree	27	38.6	80.0
no view	7	10.0	90.0
Disagree	6	8.6	98.6
Not applicable	1	1.4	100.0
Total	70	100.0	



Analysis:

Among managers, there appeared to be mixed views on the benefits of PRP in relation to teamwork. Just under half (48.5 per cent) agreed that PRP contributed to more effective teamwork while 31 per cent were in disagreement. Furthermore, 48 per cent of respondents ranked the statement '*PRP negatively affects teamwork, and co-operation can suffer*' in the top three disadvantages with the scheme. Comments expressed by the managers

did not indicate that PRP had created a positive effect on teamwork: *'Individuals will sacrifice team goals for their own glory'* (Manager, 2000) was just one of the comments which reflected the views of many.

During follow-up interviews, some managers commented on the lack of co-operation because of the PRP system, and its failure to achieve a sense of team spirit. However, it may be worth considering that the type of motivation provided by PRP, as one manager pointed out, may affect the issue of teamwork:

“It helps to motivate certain individuals with competitive instincts. It doesn't motivate people who will do a good job come what may. It can therefore be divisive on a team with two types of personalities.” (CEO).

8.10. Joint Consultation in goal-setting process

The role of consultations in the formulation of performance objectives and targets is paramount to the effectiveness and achievement of the intended corporate objectives. Therefore, the study asked 70 local government managers to comment on two different statements (see question 11.0 in Appendix C) that were designed to elicit their personal involvement in the various stages of objective formulation processes. Their responses are presented in Tables 8.10.1 and 8.10.2, and in the corresponding trend analyses in Bar Charts.

Table 8.10.1: *I really have little voice in the formulation of my work objectives*

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
strongly agree	1	1.4	8.6
Agree	13	18.6	27.1
no view	12	17.1	44.3
Disagree	24	34.3	78.6
strongly disagree	13	18.6	97.1
not applicable	2	2.9	100.0
Total	70	100.0	

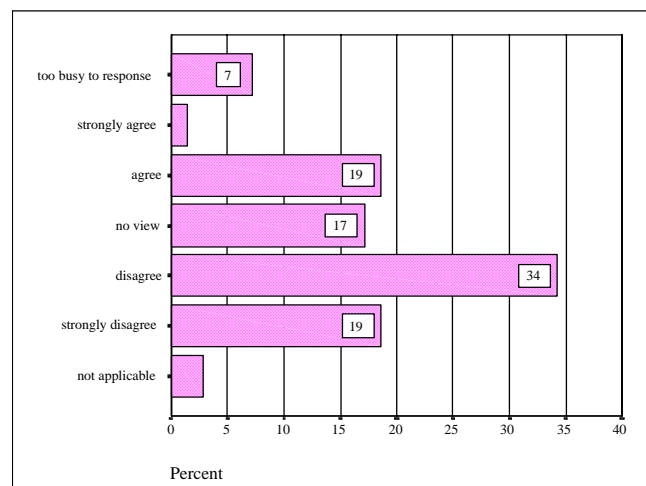
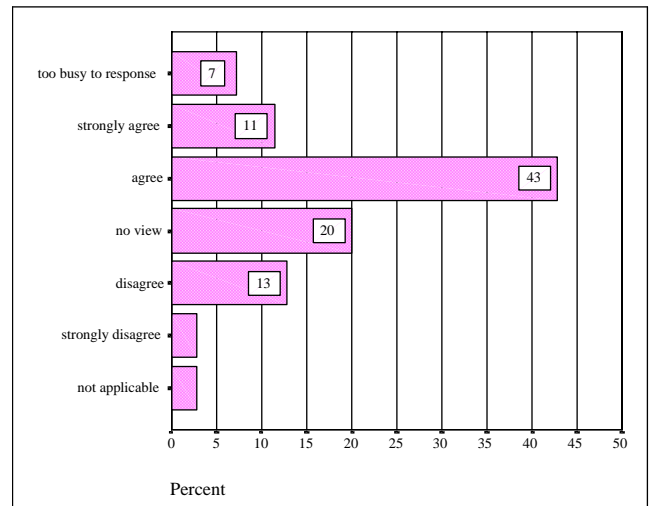


Table 8.10.2: I am allowed a high degree of influence in the determination of my work objectives

Questionnaire responses	Freq	%	Cum(%)
too busy to respond	5	7.1	7.1
strongly agree	8	11.4	18.6
Agree	30	42.9	61.4
no view	14	20.0	81.4
Disagree	9	12.9	94.3
strongly disagree	2	2.9	97.1
not applicable	2	2.9	100.0
Total	70	100.0	



Analysis:

The importance of joint consultation to the perception of equity of PRP schemes is discussed in detail within the literature. According to Williams et al. (1993:144), *'employees are much more likely to respond to clearly defined mutually agreed individual objectives, than they are to grand statements about corporate values, however eloquently they are articulated.'* This survey indicates that the extent of this difficulty within the sectors in question is relatively limited, with a majority of 74 per cent overwhelmingly agreeing that they have little voice in the formulation of their work objectives and just 10 per cent agreeing that they are allowed a high degree of influence in the determination of work objectives. Table 8.10.2 displays these responses to a couple of statements concerning the issue of joint consultation in goal-setting process.

Table 8.10.2: Joint consultations in goal-setting

Statement	Agree %	Disagree %	No View %
I really have little voice in the formulation of my work objectives	74	20	6
I am allowed a high degree of influence in the determination of my work objectives	10	82	8
N = 70			

8.11. Improvement in Performance

Finally, the study surveyed the perception of local government managers about the overall improvement in performance that may be attributable to performance-pay incentive schemes. The managers were asked to give their personal views on eleven key statements (see question 12.0 in Appendix C). Their responses are presented in the following Tables 8.11.1 through 8.11.11 inclusive and in the corresponding trend analyses in Bar Charts.

Table 8.11.1: With PBI scheme my individual efforts and achievements are recognised

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	11	15.7	22.9
Agree	26	37.1	60.0
No view	12	17.1	77.1
Disagree	10	14.3	91.4
Strongly disagree	3	4.3	95.7
Not applicable	3	4.3	100.0
Total	70	100.0	

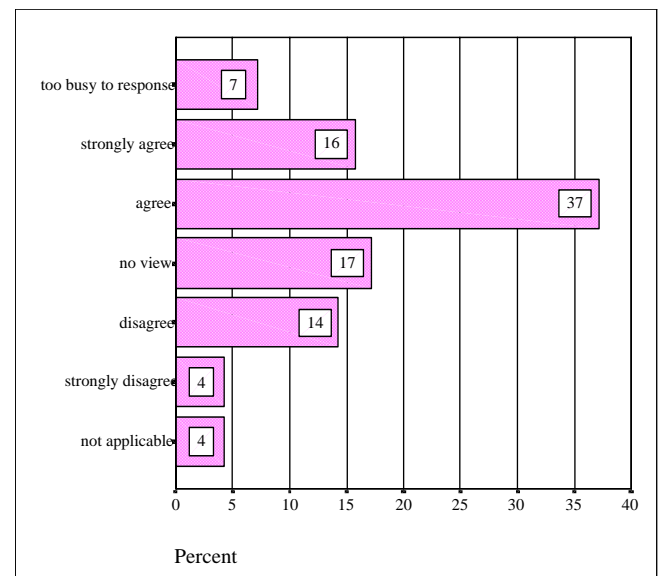


Table 8.11.2: With PBI scheme, my work objectives are clear and specific. I know exactly what my job is all about

	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	11	15.7	22.9
Agree	31	44.3	67.1
No view	15	21.4	88.6
Disagree	1	1.4	90.0
Strongly disagree	3	4.3	94.3
Not applicable	4	5.7	100.0
Total	70	100.0	

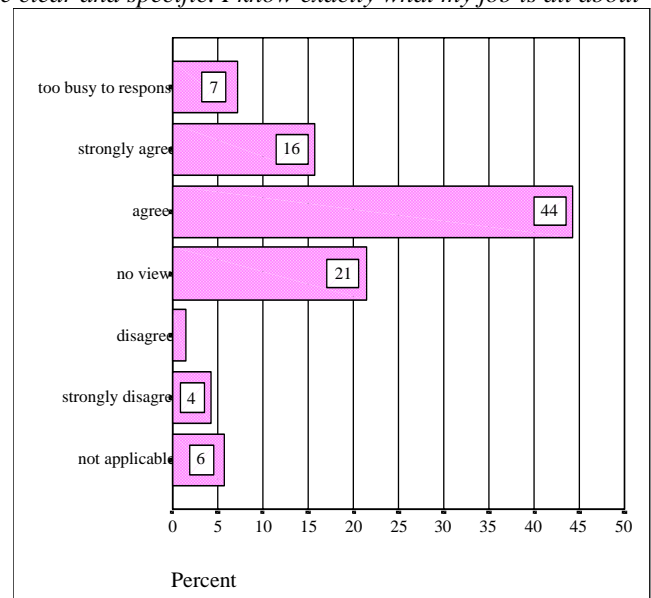


Table 8.11.3: With PBI scheme I can see how my work contributes to the organisation as a whole

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	5	7.1	14.3
Agree	23	32.9	47.1
No view	17	24.3	71.4
Disagree	12	17.1	88.6
Strongly disagree	4	5.7	94.3
Not applicable	4	5.7	100.0
Total	70	100.0	

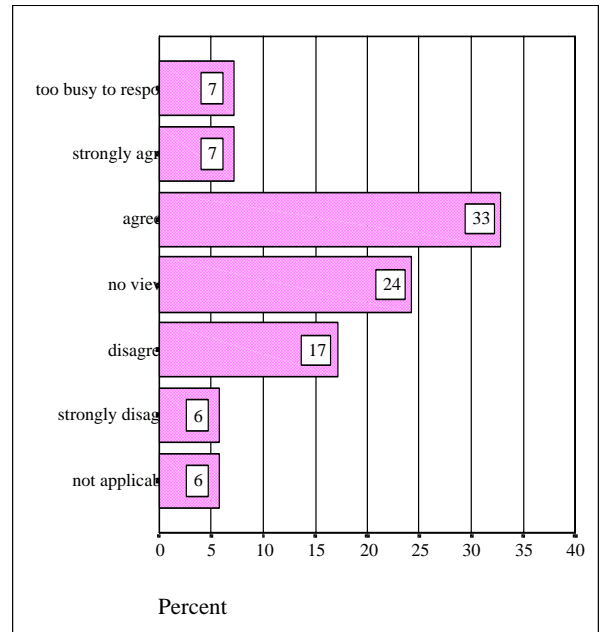


Table 8.11.4: With PBI scheme I have a clear idea about how the organisation is performing overall

Responses	Freq	%	Cum(%)
Too busy	5	7.1	7.1
Str. Agree	3	4.3	11.4
Agree	10	14.3	25.7
No view	14	20.0	45.7
Disagree	34	48.6	94.3
Str. disagree	3	4.3	98.6
Not applicable	1	1.4	100.0

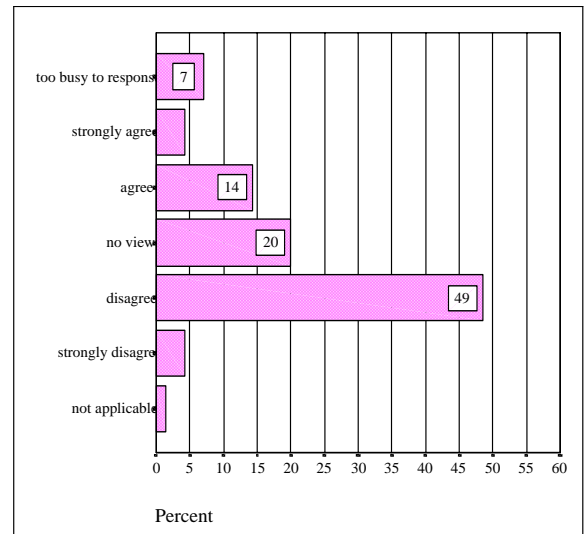


Table 8.11.5: I am generally told what is going on in the organisation

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	37	52.9	60.0
Agree	24	34.3	94.3
No view	2	2.9	97.1
Not applicable	2	2.9	100.0
Total	70	100.0	

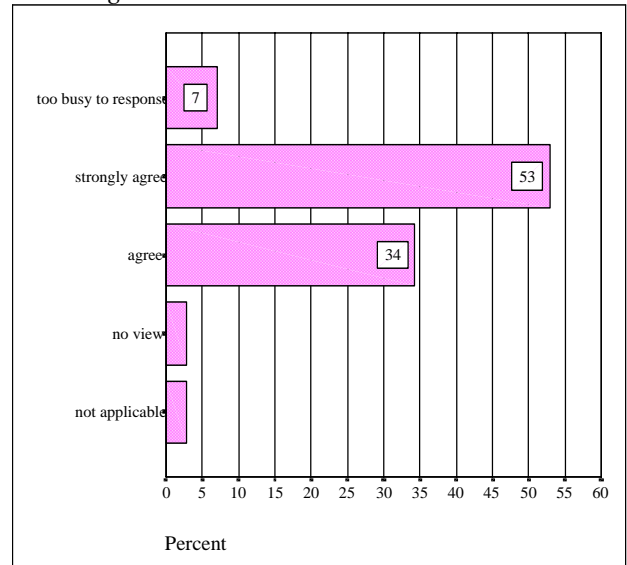


Table 8.11.6: I have got a clear idea of what this organisation's goals and plans are for the future

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	38	54.3	61.4
Agree	24	34.3	95.7
No view	2	2.9	98.6
Not applicable	1	1.4	100.0
Total	70	100.0	

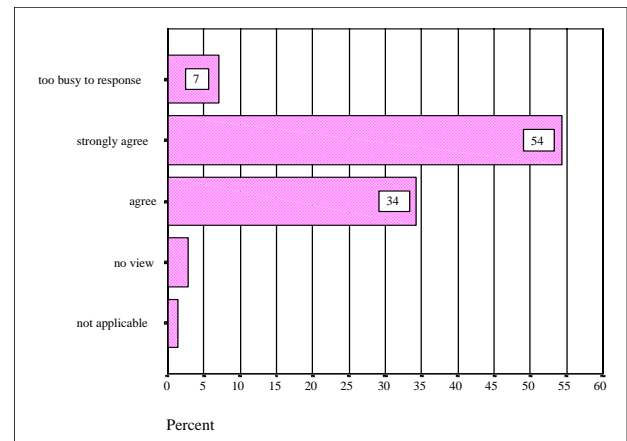


Table 8.11.7: PBI scheme has yet to overcome some of the difficulties in this organisation

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	5	7.1	14.3
Agree	10	14.3	28.6
No view	15	21.4	50.0
Disagree	30	42.9	92.9
Strongly disagree	1	1.4	94.3
Not applicable	4	5.7	100.0
Total	70	100.0	

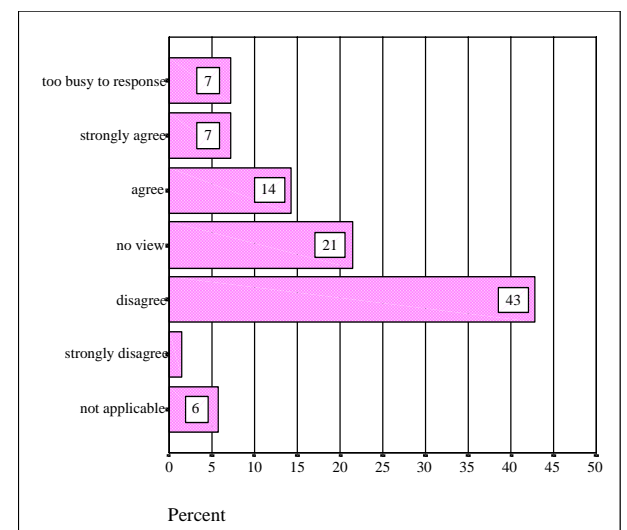


Table 8.11.8: Increased communications with the boss as a result of PBIs

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Agree	6	8.6	15.7
No view	32	45.7	61.4
Disagree	20	28.6	90.0
Strongly disagree	4	5.7	95.7
Not applicable	3	4.3	100.0
Total	70	100.0	

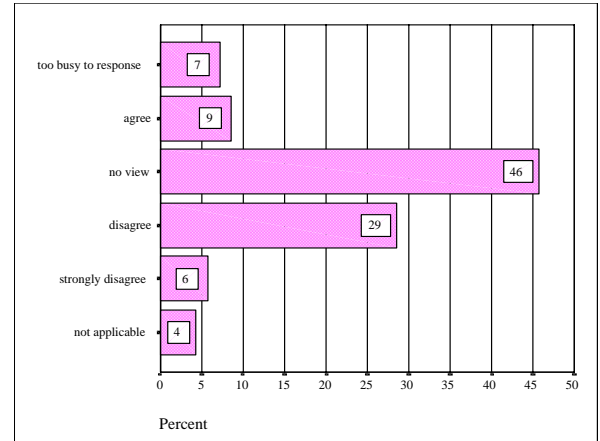


Table 8.11.9: PBIs makes me show more initiative

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Agree	4	5.7	12.9
No view	10	14.3	27.1
Disagree	24	34.3	61.4
Strongly disagree	16	22.9	84.3
Not applicable	11	15.7	100.0
Total	70	100.0	

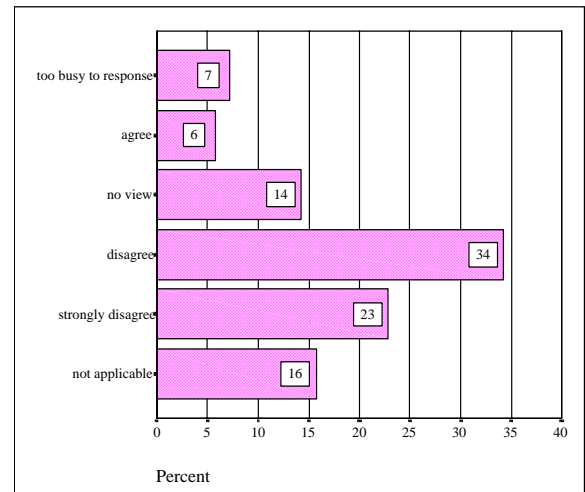


Table 8.11.10: PBIs makes me focus on what I'm meant to achieve

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	1	1.4	8.6
Agree	18	25.7	34.3
No view	9	12.9	47.1
Disagree	25	35.7	82.9
Strongly disagree	7	10.0	92.9
Not applicable	5	7.1	100.0
Total	70	100.0	

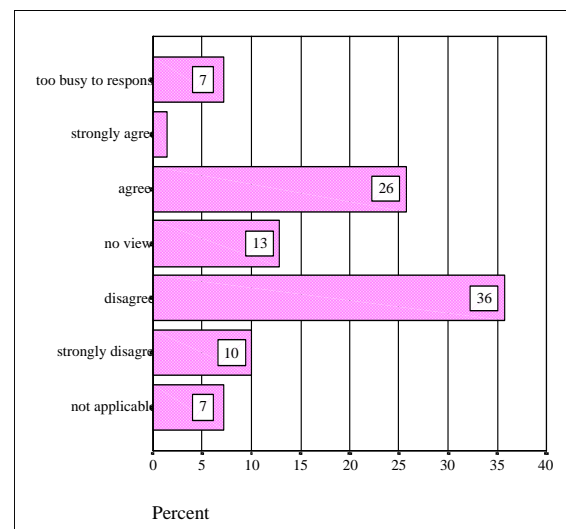
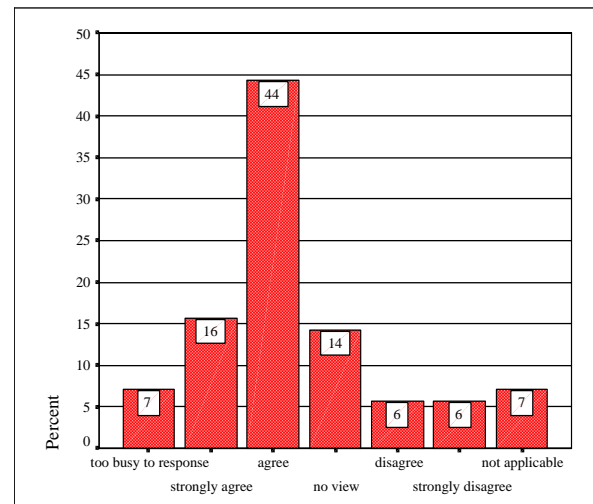


Table 8.11.11: I have a clear idea of the council's goals and plans for the future

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	5	7.1	7.1
Strongly agree	11	15.7	22.9
Agree	31	44.3	67.1
No view	10	14.3	81.4
Disagree	4	5.7	87.1
Strongly disagree	4	5.7	92.9
Not applicable	5	7.1	100.0
Total	70	100.0	



Analysis:

In the follow-up interviews, although PRP had disadvantages for some managers, there were others who supported both its principles and operation. Individuals indicating a positive response to the statement *'With PRP my individual efforts and achievements are recognised'* seemed to be far clearer about their work objectives and how their work contributed to the organisation. They also appeared to be well informed about the authorities' plans and performance, and had few difficulties with PRP.

In an effort to establish the most effective way of improving on performance, a detailed analysis of those who had perceived an improvement in performance was carried out. Three quarters of respondents agreed with the statement, *'PRP has contributed to a general improvement in performance.'* This proportion of managers appeared to have found increased communication with their supervisors and a more focused direction in their work. They also seemed to have a clear idea of their organisations' goals for the future of the organisation, and have found PRP to have affected the extent of initiative shown in their work. Managers who agreed with the statement *'with PRP my individual achievements are recognised'* similarly agreed with the statement *'PRP gives an incentive to work beyond the requirements of the job.'*

This indicates the possibility that recognition gives incentive to increase performance, lending support to the argument that the key to increasing performance may be obtained through, not a monetary incentive, but through the recognition element of an incentive policy.

8.12. Attitude and Discontent Survey

Finally, the study conducted an attitude survey amongst 52 local government managers about the effectiveness of PRP schemes. The responses are as follows:

Table 8.12.1: How would you rate the attitude of employees covered by the PRP about the effectiveness of the scheme?

Questionnaire responses	Freq	%	Cum(%)
Too busy to respond	1	1.9	1.9
mostly unhappy	2	3.8	5.8
mostly happy	3	5.8	11.5
mixed feelings	4	7.7	19.2
not applicable	42	80.8	100.0
Total	52	100.0	

The graphical presentation of Table 8.12.1 is as follows:

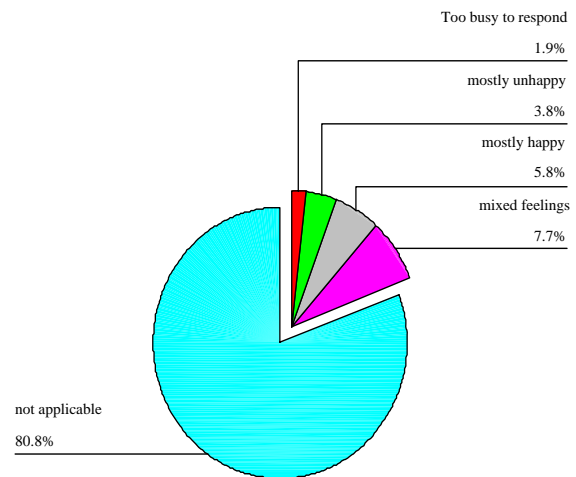


Table 8.12.2: How would you rate the attitude of employees NOT covered by the PRP scheme about its effectiveness?

Type of response	Freq	%	Cumulative Percent
Too busy to respond	1	1.9	1.9
not happy	1	1.9	3.8
mostly unhappy	1	1.9	5.8
very happy	1	1.9	7.7
mostly happy	2	3.8	11.5
mixed feelings	4	7.7	19.2
not applic.	42	80.8	100.0
Total	52	100.0	

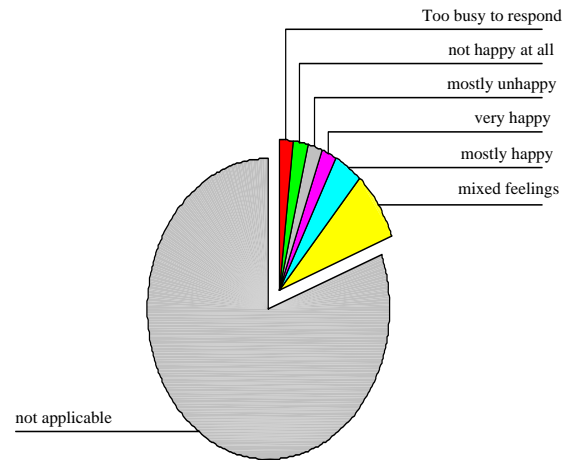


Table 8.12.3: Where discontent has arisen within has it been the question of the scope of the PRP scheme?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
No	5	9.6	11.5
Yes	6	11.5	23.1
not applicable	40	76.9	100.0
Total	52	100.0	

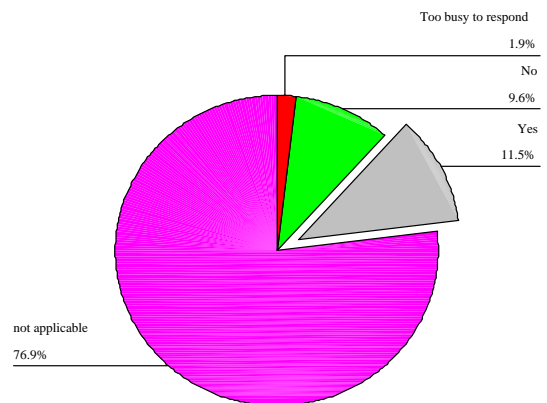


Table 8.12.4: Where discontent has arisen within the authority, has it been the question of the perceived fairness of individual performance targets?

Type of response	Frequency	Percent	Cumulative Percent
Too busy to respond	1	1.9	1.9
Yes	4	7.7	9.6
No	7	13.5	23.1
Not applicable	40	76.9	100.0
Total	52	100.0	

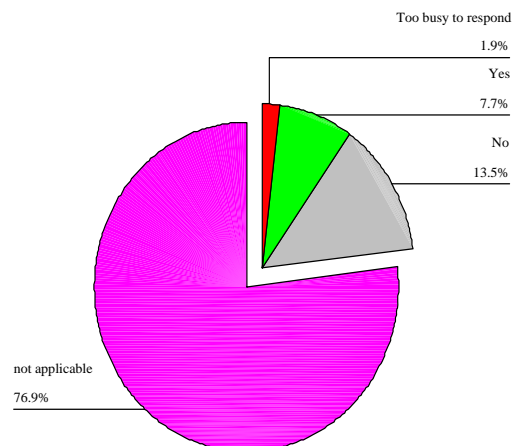


Table 8.12.5: Where discontent has arisen within the authority, has it been the question of the process of appraising individual performance?

Type of response	Freq.	%	Cum(%)
Too busy to respond	1	1.9	1.9
No	6	11.5	13.5
Yes	8	15.4	28.8
Not applicable	37	71.2	100.0
Total	52	100.0	

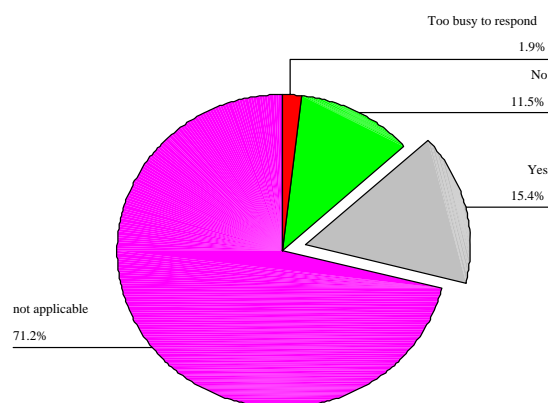


Table 8.12.6: Where discontent has arisen within the authority, has it been the question of the ranking of individual performance?

Type of response	Freq.	%	Cum(%)
Too busy to respond	1	1.9	1.9
Yes	3	5.8	7.7
No	8	15.4	23.1
not applicable	40	76.9	100.0
Total	52	100.0	

The graphical presentation of Table 8.12.6 is as follows:

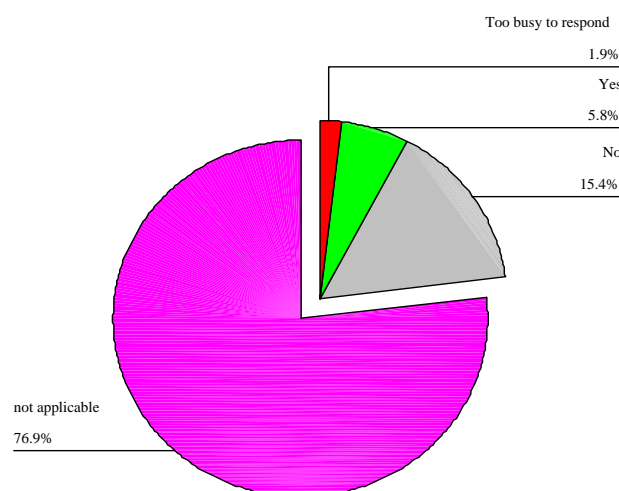


Table 8.12.7: Where discontent has arisen within the authority, has it been the question of adequacy of the linkage of pay to individual performance?

Type of response	Freq.	%	Cum (%)
Too busy to respond	1	1.9	1.9
Yes	5	9.6	11.5
No	6	11.5	23.1
not applicable	40	76.9	100.0
Total	52	100.0	

The graphical presentation of Table 8.12.7 is as follows:

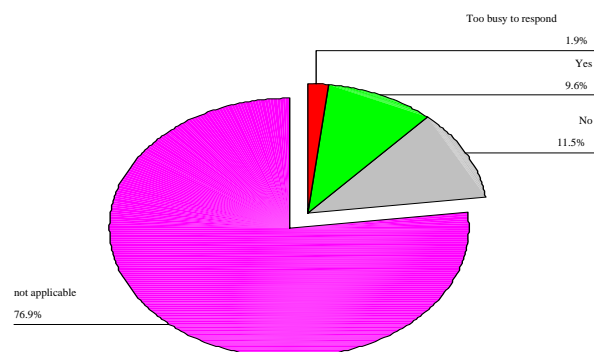
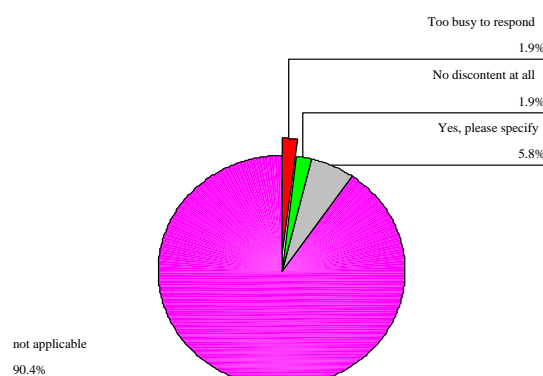


Table 8.12.8: Where discontent has arisen within the authority, has it been the question of none of the above?

Type of response	Freq.	%	Cum(%)
Too busy to respond	1	1.9	1.9
No discontent at all	1	1.9	3.8
Yes, please specify	3	5.8	9.6
not applicable	47	90.4	100.0
Total	52	100.0	



8.13. Key findings: Stakeholders' perceptions on PRP schemes

The long-standing debate about the compatibility of market-based management techniques in PSOs and what motivates public sector managers has by no means been resolved through this study as further research is still called for. However, some interesting conclusions about the following six key issues can be drawn.

(a) It is essential to relate pay to performance but the schemes are unfairly operated – principle vs. process

Except for the idea of PBIs being perceived to be unfair, more than half of the respondents have

agreed that the policy and principle of relating pay to performance is essentially a good one. More than half of the respondents have agreed that, where properly operated, the PBIs have been successful in achieving an overall increase in organisational performance in the local government system, and have provided the authorities with a useful tool in the delivery of quality public services. Only 47% of the respondents are of the view that a PBI scheme provides greater opportunity to interact on a more frequent basis with the supervisor for discussing the focus of direction of the targets set.

(b) Pay is an irrelevant motivator if the package is unattractive and feedback is ineffective

The most important thing about a job is not pay. However, the respondents unanimously agree that pay can be a motivator if: (i) the package is competitively substantial; and, (ii) employees receive a considerable amount of feedback concerning the quality of their output.

(c) The main purpose of a PBI scheme is to cultivate organisational achievement culture

Highly ranked purposes for which an incentive scheme is operated to reward good performance are: (i) to promote organisational change; (ii) to motivate employees; and (iii) to solve the problems of recruitment and retention of staff.

(d) The main drawbacks with the PRP are attributable to coverage of the schemes

The highly ranked drawbacks with the schemes are: (1) the effects of the PRP schemes on team spirit where only some of the employees are covered; (2) the inadequacy of amount of reward involved; and (3) the difficulties in measuring individual performance objectively.

(e) PBIs contribute to short-termism objectives

The study also observed that rewarding employees based on performance makes them focus mainly on short-term work objectives rather than long-term, and performance targets may become irrelevant as a result of circumstances beyond the manager's direct control. The challenge for policy makers is to recognise the importance of process measures and innovation and learning strategies for genuine, long-term quality improvement in the delivery of Best Value services. Genuine improvement over the long-term rather than 'short-term fix' will only occur when managers and policy makers pay attention to the way people work and the attitudes and beliefs they hold while performing this work.

(f) Goal-setting process encourages joint consultation and is a significant incentive

Responses about joint consultation in objective and goal setting indicate that most of employees participate in the formulation of work objectives and are allowed a high degree of influence in the determination of work objectives. This is a huge source of motivation which may result in high performance as pointed out above.

(g) The general perception about PRP schemes

Finally, the general perception of the respondents about PRP is that the schemes do motivate some individual efforts and achievements are recognised. About 40% of the respondents feel that the schemes help them to see how their work contributes to the organisation as a whole and only 22% of them think that the schemes have yet to overcome some of the difficulties in their

organisations. However, almost all of them agree that the schemes do help them to figure out what the goals and plans of their organisations are for the future. Surprisingly, the minority of the respondents (9%) are of the view that PRP schemes have helped to increase communications with their line managers. This suggests that there is a communication barrier between the parties involved due to (may be) lack of consultation.

8.14. Conclusion

The examination of 12 parameters of equity dimensions of a performance-related incentive policy in the British LGs indicates a skewed support of the strategy. The main conclusion to be drawn is that the schemes are installed on a flawed environment on one hand and are not organisation specific on the other. This exposes them to criticisms of being unfair, divisive and incompatible with traditional values of political institutions such as local governments.

Chapter Nine

CASE 4: THE CASE STUDY OF PRP SCHEMES IN BRITISH LOCAL AUTHORITIES

9.0. Introduction

This chapter is a closer look at issues examined in the survey using questionnaires in chapter 6, 7, and 8 above. Most importantly it seeks to test the generalisations of motivation theories of AGREE in a public sector perspective as already discussed in the literature review in chapter two above. The chapter consolidates these theorems with the experience of implementing PRP schemes in public sector environment using the case study of British local government system and sets the scene for conclusions in the next final chapter. The case study research provides valuable insights of issues which arose during the survey phase about which in-depth information was not provided due to the nature of the data collection instruments used. The interviewees (mainly senior managers – see Appendix D) were mainly drawn from five local authorities of Solihull, Redditch, Birmingham, Warwickshire and Sandwell. The chapter is organised into four main parts.

Firstly, the chapter highlights the overall context of PRP schemes. Secondly, it analyses interviews and discussions held during case study visits about the practice of PRP schemes in BLGs. The interviews revolve around three key issues: (i) PRP effects on individual and organization performance; (ii) Fairness aspects of the schemes; and (iii) PRP's links with financial and PM. Thirdly, the chapter looks at issues relating to service quality in local government with a view to drawing some lessons for developing countries. Finally the chapter examines the implication of the schemes and the strategic approach to managing performance. Please note that where applicable for reasons of confidentiality references for the quotes from

interviews etc will not disclose specific names of individuals or their authorities.

9.1. The overall context of PRP schemes in PSOs

The past thirty years have seen some fundamental shifts in the types and mix of jobs in the economy. Just as fundamentally, the nature of competition has altered and become much more intense. Both these changes have been accompanied by changing fashions in pay systems. The ways in which people are paid have often developed haphazardly, with different schemes being introduced for different sets of people at different times and with different motives. Although there have been enormous advances in technology, particularly automation, there are still a significant number of repetitive jobs with a high labour content, for example in garment and footwear manufacturing, where piecework incentive systems are still relatively common.

The 1950s saw the payments of piecework as techniques of work measurement were refined to set standards for less repetitive tasks, this process continued and eventually peaked in the early 1980s. In a public sector environment, the growing emphasis is on quality and 'right first time', and there are schemes to stimulate commitment and interest by giving people broader and more rewarding jobs by, for example, the introduction of team working. Pay has now become related more to the total job than to elements of the job, and the individual's responsibility for quality has started to be formally recognized in other ways than by simply imposing pay penalties for re-work.

During the 1970s attention had turned towards greater white-collar workers. This trend was reinforced by the growth of jobs in the service sector. Work-output was more difficult to measure in a non-manufacturing sector and this called for a new approach to incentive pay. A large number of white-collar workers were on incremental payment systems based on the belief that the contribution of white-collar workers increased with experience, and it was

therefore appropriate to pay more as their length of service increased. To relate effort, qualification and other aspects of jobs more clearly to pay, job valuation systems were often introduced.

An accelerating rate of change and the search for savings in 'non-productive' jobs during the 1980s often made it difficult to maintain highly analytical systems with detailed job descriptions and job evaluation committees. Simultaneously the changing social climate put greater emphasis on individualism. The emphasis has shifted from analysis of job content and effort (inputs) to individual achievement (outputs). Pay systems have reflected this, although because changes have occurred gradually many organisations still have a variety of payment systems.

Payment systems and changes to them are products of a changing environment. Piece-rate pay systems were linked to manufacturing philosophies prevailing at the time. The current decline of individual payment-by-results (PBR) and the rise of PRP and profit-related pay are linked with the management preoccupations of the moment: for example, improvements in quality, the development of just-in-time (JIT) manufacturing, greater focus on the customer, decentralisation of businesses, flatter organizational structures and increases in individual accountability.

These considerations are not limited to the private sector or to manufacturing or service industries, and are making an impact in the public sector too. It is interesting to note that the preoccupation with pay systems is a feature in life in the UK and the USA. There seems to be more stability of approach in the rest of Europe and in Japan, although this suggestion is based on subjective rather than empirical evidence. In the UK the next stage may be greater attention to careers and the development of skills.

In some organizations, there has been a move towards systems that reward individuals for acquiring new skills – in other words, pay systems that not only reward individuals for their contribution today but set out the reward for their potential contribution tomorrow. Against this is the nagging suspicion harboured by some that the complexities of many incentive and skill-based systems are themselves counterproductive and that, looking to Europe and Japan for examples, given the right culture, incentives - could be superfluous and might be abandoned.

The aims of pay systems have widened in line with the changing circumstances and philosophies mentioned above. Whereas pay systems were once probably designed to do nothing more than motivate, reward, recruit and retain employees, they now have wider expectations thrust upon them: improving quality and skills, changing the work culture and promoting co-operation are now included in their possible aims, which can be summarised as follows:

1. *To increase effort:-* motivation and reward
2. *To compete in the labour market:-* recruitment and retention
3. *To improve quality:-* right first time and continuous improvement.
4. *To change culture:-* innovation and customer service.
5. *To promote co-operation:-* team working.
6. *To improve skills and flexibility:-* upgrading competence and personal development.

The extent to which the new motivational pay systems have met these expectations provides some of the themes addressed in this thesis.

Motivation is generally taken to refer to a willingness to act in certain ways, e.g. a willingness to work harder, or a willingness to focus on one thing rather than another. To achieve this mission, five important motivation theories of AGREE need to be borne in mind when designing and implementing a performance-related incentive policy. These theories raise at least four fundamental questions about the structure and mechanics of PRP regimes

in general, and about those other issues addressed in this study in particular. First, is goal clarity likely to be secured? Second, is goal commitment likely to be secured? Third, are people likely to be confident that they will be given the rewards if they deliver on their objectives? Fourth, are the rewards on offer sufficiently attractive? Therefore, these topic guide questions formed the basis for most interviews and discussions presented in this chapter.

9.2. Analysis of Interviews and discussions: The Practice of PRP

PRP is very different from the earlier forms of incentive schemes, because it relates more to the evolution of Management by Objectives (MBO). It starts with the need to achieve targets – through performance improvement systems – in the relatively long term (usually a twelve-month period) rather than in the short term. In this PRP is similar to profit-related bonuses, but the specific targets to which PRP applies usually relate to individuals and not to groups, let alone the organization as a whole. And the focus is often on inputs such as skills and teamwork.

Individual payment-by-results (PBR) and group PBR are basically concerned with effort and output. In good times and bad, bonuses can be earned. Group profit-sharing and company-wide bonus schemes generally relate to total output and profit. While bonuses may rise when output is high, they tend to fall when the organization hits a bad patch, whatever the effort being expended by individual workers. PRP can be different. When the organization is well, some individuals may receive small bonus because they achieve little while trying hard (and vice versa). Conversely, when the organization is doing badly individuals who are judged to have achieved much may be rewarded comparatively well.

While some of the six possible aims of pay systems set out in the overall context above are clearly relevant to PRP, not all of them are. The interviews analysed in this section show that it is not usually a prime objective to provide an edge in the labour market, but that PRP

does offer a rationale for rewarding individuals who, as high achievers, may otherwise look outside to other employers who offer PRP. On the other hand, some employers specifically include 'a market rate' element when fixing and reviewing PRP. It can be an influence on improving quality, but only to the extent that quality issues are defined in the context of personal objectives. In the literature PRP is very strongly associated with changing the culture in an organization and with greater individual responsibility. Co-operation within the work force, teamwork, improvements in skill and greater flexibility may be encouraged by PRP if they are required objectives.

The rest of this section looks at the evidence of PRP's success in its own terms rather than against the wider objectives. It asks what evidence there is that PRP improves performance, and works as a motivator. It looks at the difficulties of defining individual performance. It asks about the effects of splitting work forces into achievers and non-achievers. It asks what happens when low economic growth affects people's performance pay especially in developing countries such as Tanzania.

These questions overlap to some extent – for example, the issue of motivation keeps recurring – but considering the issues discussed in this chapter should help those who want to make sure that PRP works as positively as possible within their own organization. The aim is to give a sense of how well and equitable the schemes are perceived to be working in practice, the problems some have come up against, and what steps (if any) can be taken to counter such problems. For the purpose of this thesis the questions addressed during the interviews are categorized into three main groups:

(a) PRP's effects on individual and organization performance:

1. Does it work as a motivator? Can it be a demotivator?
2. Does it encourage short-termism?
3. What effect does it have on team working?

4. Is it appropriate to all organizational cultures?
5. Does it really improve performance?
6. What about monitoring of the schemes and attitude surveys?

(b) PRP's fairness:

1. Can individual performance be measured objectively?
2. What about factors outside employees' control?
3. Can PRP give rise to sex discrimination?
4. What are the reservations about discrimination of PRP awards?

(c) PRP's links with financial and performance management:

1. What are its effects on pay costs?
2. How can its proper distribution be reconciled with budgetary control?
3. How closely is it linked with performance management systems?

Even if some of these questions may be of a rather leading nature, they need answering, because from the 1980s to date so many governments and organizations have placed such high expectations on PRP. Are these expectations justified? And if expectations are not always realized, what are the underlying attributes of a successful PRP?

9.2.1. Individual and organizational performance

9.2.1.1. Does PRP work as a motivator? Can it be a demotivator?

As a motivator

The local government managers interviewed for this research were by no means certain that PRP schemes succeeded in motivating people. Most of them were not convinced they could plainly confirm that PRP was increasing either individual or overall organizational performance. Some put it in terms such as *'It's an article of faith.'* Or, as one chief executive puts it,

'We have no clear evidence either way on whether our schemes improve motivation and morale by rewarding good performance, or whether they serve to demotivate employees who are not motivated.'

Another interviewee pointed out that, traditionally, the greatest motivator was promotion, and it was still probably the most important.

In particular, there was widespread uncertainty about the precise role of money, and particularly of the effects on motivation of the relatively small amounts of monetary inducement entailed in most PRP schemes. Only twelve per cent of the managers interviewed were strongly of the view that money was of prime importance, as quoted:

'I think money motivates. I think that's what bonus schemes do, they motivate people, because they think they can earn more money and they make them concentrate on the things the organisation thinks are important. If they've only got so many hours in the day, and you do this or that, and this affects your bonus and that doesn't, you're likely to do this.'

Others had more ambiguous views. A typical response was:

'We obviously consider money to be a motivator in support of performance and management schemes. If not, we wouldn't use it. Perhaps, though, with some reservations. How much of it is money? There is generally a feeling that, if you pay money people who are generally considered to be striving, this meets people's general view of fairness and equity.'

Others felt that:

'Up to a certain level it's a motivator. Once a manager has got certain level of pay and can manage a life style he feels he ought to have, then other things start to come in the limelight.'

One manager, having questioned whether in fact the scheme in his council made any difference, said,

'But I think there are cases where if there was no merit increases certain managers would be very disappointed, feeling that they had worked extremely hard and had a successful year.'

This is clearly a reflection of the Herzberg (op. cit) principle: the real motivation comes from the job, not things like money and the conditions under which they work. Most respondents qualified their view of money as a motivator by saying it was only one of several factors. PRP was seen as also motivating by giving recognition, feedback and clear direction; money would

motivate if the targets set were realistic and achievable, especially, if there was no pay increase 'of right' and everything had to be earned in terms of performance.

A manager who had crossed over from an organization which was privatised in the 1980s, argued that money might become more important as job security became more threatened.

'Money is not the main motivator, just one of many. We used to be a large company offering job security, career progression and good rates of pay. Now that people are feeling less secure maybe pay will become more important.'

Another interviewee said,

'There are so many factors to motivation. It all depends on the threat at the time. If your job is insecure then job security is the biggest motivator you get.'

The issue of whether money motivated related, for some interviewees, to the type of persons employed and/or their individual circumstances. However, none of the interviewees took their views on the motivational effects of money to what might be seen as a logical conclusion by suggesting that they looked to recruit the sort of people who might be motivated mainly by money for certain jobs, and people who might be motivated by different factors for other jobs.

For others, it was more of a question of the amount of pay at stake. For money to be effectively used to change the performance of higher-level members of the organization - substantially, it had to be, according to almost all the managers interviewed, a fairly large proportion of salary. The issue for them was not how much of it had to be at risk – i.e. a matter of negative reward – but rather whether the additional money would yield qualitatively different spending power. As one interviewee put it,

'... ...If it does not affect the life style, it's not significant.'

In making these judgments, the managers interviewed were heavily influenced by their own attitudes and perceptions to pay. As one of them put it,

'For money to become a big incentive/motivator, it must be 10 per cent and probably nearer 20 per cent above for it to make a real difference to what I do.'

In her council, with the exception of a profit bonus, none of the systems of pay did this. The same was true of the majority of PRP schemes in the cases studied.

Several interviewees felt that, once monetary reward was at a satisfactory level, recognition became the major factor. Recognition was usually defined along the lines, *'that somebody feels you are doing a good job.'* As one put it,

'If there is good basic pay, then recognition is the greatest motivator - especially feedback on performance from the manager.'

Or, as one chief executive responded,

'What has been found to be a motivator has been 'actual feedback you've got on performance and the fact that if somebody said to you, "You are in band 2," it means something!'

Money and recognition were not however, totally unrelated. The two were perceived to be linked.

'They say, you've met your objectives – here's fifteen thousand quid.'

You've not only got recognition, you have greater clarity of objectives, why objectives are here and why you're being paid. To quote one manager,

'Money is the reinforcer of the underlying philosophy of performance management system. The business is that we must strive to get business up, reduce costs, we don't reward the under-performer.'

Some respondents saw the way payment systems were being operated as a facility in creating commitment by developing in employees favourable views of their organization. If PRP schemes were operated fairly, and were seen to be so, this could leave employees, as some interviewees said, well disposed towards the company. In so far as PRP did this, it could be motivating, or at least, *'it eliminates things which can interfere with motivation'*.

However, references made to employees looking favourably on PRP schemes were very much in terms of equity, and not just in terms of money as a motivator. For example, one manager reported that their experience was that,

'PRP was increasingly being welcomed. But, I must say, in a rather negative way: it is not that people are motivated to work harder in order to get more money, it is more that they are content about working harder if they think that other people who work less hard are getting less than they are.'

This is the evidence of the logic of the expectancy theory of motivation although in the public sector there is definitely more questioning of the role of money in motivation. One interviewee believes that PRP was not a motivator, because *'by and large people are not working in the public service for the money.'* She argued that this view was borne out by a communications survey carried out by an external consultant in the health authority which revealed that job satisfaction was the main motivator. Other motivators included *'doing something worthwhile'* and working with people.

9.2.1.2. What about demotivation?

While views about the motivational aspects of PRP were distinctly ambiguous, virtually all the managers interviewed considered that PRP could be a demotivator for those not getting high pay increases. Yet through all the interviews there was only one instance where the demotivating effect of PRP had caused management to amend the scheme. The problem had arisen because the organisation classified people into four bands and predetermined the numbers to be covered by each band.

The effect was that 80 per cent were classified either in band 3 or in band 4, and consequently saw themselves as labelled 'average' or below. Moreover, when the council had first introduced the scheme it had talked in terms of motivation in its publicity and in the briefings about it. Subsequent feedback had told management that this was demotivating, because the

implication was that senior management felt people were not already motivated. As a result the banding system was abandoned, the language was amended so as to use more positive terms, and greater emphasis was put on changing the organizational culture through PRP.

Some councils consciously aimed at rewarding the exceptional or high performers disproportionately. One organisation for example, assumed that most people would get the middle grade, C, and wanted to make sure that the average performer was able to achieve a certain level of recognition. So management rejected a philosophy of giving massive pay increases to the very high performers and very mediocre pay rises to the average. Instead the management felt that the average should also have a reasonable level of award, otherwise PRP could end up by demotivating 80 per cent of its people.

Underlying many responses was the concern that PRP schemes demotivate those who are not placed at the higher ends of pay or rating scales, whilst the amount of money given to others might be insufficient really to motivate them. The perceptions also suggest that staff felt that the amount of money was not large enough to justify a change in behaviour.

In one council the interviewee reported that anybody who got less than the maximum of 6 per cent felt insulted.

‘So instead of feeling pleased that they got 3 per cent (the second point) because everybody had recognized their performance was good, they would be demotivated because they had not got the 6 per cent that was excellent.’

Several respondents suggested a figure between 15 per cent and 25 per cent as a proportion of salary at risk which might genuinely act as a motivator.

However, it was precisely because effort and business performance might not always coincide that several authorities did not want to have too much pay at risk. One council explicitly had a

policy of not wanting the senior executives' bonuses to be too high a proportion of salary,

'because the down side of a big bonus is that if you get people used to it, and you get a recession, and that money goes to other good causes, the marketable ones will leave because they are used to getting that money.'

A small bonus is more likely to be seen as an 'extra'. The personnel director of the above authority illustrated it thus:

'In our business, what we have seen this year with our 10 per cent bonus – some of the senior executives feel positively guilty. They said, "The way things are going, we thought you'd withdraw it." So they clearly see it as nice to have. When times are good we should all get 10 per cent, but when times are tough we should not really get it.'

9.2.1.3. What about average and poor performers?

Several respondents said that the introduction of PRP had encouraged the identification of poor performers. As one manager put it,

'It has meant that people are being forced to address people who are not performing, which to be honest, has been an issue which has been dodged in the past.'

The demotivating effect of low or zero pay increases on poorly rated people was not perceived by many to be a serious problem. Indeed, in several cases managers specifically reported welcoming it, on the grounds that it might '*buck them up*', motivate them to improve or, as in fact was more common, motivate them to leave.

There was however a feeling that PRP was not used sufficiently to motivate poor performers. In one case (and it was not an isolated instance) the criticism levelled by the interviewee at the operation of the scheme pointed not to the organization abandoning PRP but rather to a tightening up of the operation of the existing scheme. In particular he was unsure about the effects of the continuation of a cost of living element:

'I don't like this. I am not sure that it's giving the right messages, to go on paying [a cost of living element] to poor performers.'

The message he particularly wanted to give was, if you don't perform, it is going to hit you in the pocket. PRP needs a down side as well as an upside and we don't do this enough.

This respondent felt that line managers were rating too generously; in his terms, they were a 'soft lot'. The council had a five-point rating scale, and though 50 per cent were typically on box 2 (1 is the top), there was a perception that people getting box 3 - 40 per cent did so – were likely to feel demotivated, as they received only the normal increment. Someone on the scale maximum, on the other hand, whose increase was limited even under PRP, was likely, in the interviewee's words, to;

'Plod along being inefficient, and sit there picking up his cost of living revision until retirement when he gets his index-linked pension. The person plods along, not taking advantage of incentives to do well, but we don't have a stick if he doesn't come up to scratch.'

Interviewees' responses tended to focus on the two ends of the performance spectrum. PRP was seen as a device to reward and retain the high performers and to motivate (often to motivate to leave!) the low performers. But, there was little reference to the middle range of performers, who may constitute 80 per of any organization. Some have obviously given thought to what motivates such people by ensuring that they are included in PRP schemes, but few interviewees seemed to know whether PRP motivated or demotivated them or whether its impact was simply neutral.

9.2.1.4. Does PRP encourage short-termism?

In one council the possibility of PRP tending to encourage short-termism had become an important issue. The 'senior management and directors' bonus scheme tends to have a short-term impetus which might adversely affect the medium to long term prospects of the business. The bonus scheme was designed to achieve budgeted profit and is in effect 'an incentive to achieve the single year's profit in isolation and at the expense of building a future'.

This interviewee also offered an example to illustrate the dangers of short-termism.

'You might have to reach a profit target of x million pounds, and you look three-quarters of the way through the year and you say to yourself, "No way am going to get this by normal trading. What I'll do is have a sale and I'll make my goods very attractive I'll reduce them by 20 per cent, which will encourage my customers to stockpile my products." And by doing these things you get a fat nice bonus. But next year the trade is stacked to the gunnels with your products and next time they want to buy they say, "Don't tell me your prices are so much. You let me have that for £8 last time. Now you say it's £10 and you have to give me a discount." It might be £9, but your margin is attacked. That's a real problem'

Other interviewees expressed similar concern, and some organizations had taken steps to tackle them. For example, in reviewing its direct services' bonuses one local authority was concerned that they were neglecting the development of relations with local residents to make a 'fast buck'. As the interviewees put it,

'We've started to ask, "Do we just want our customer services-representatives to sell, or do we want them to make a fuss of the customer?" Customer care, and all that sort of thing.'

The problem with this, though, the interviewee continued, was that *'performance becomes less quantifiable'*.

Only a few organizations had pursued the logic of these concerns and introduced specific long-term objectives, although one interviewee talked of the ability to set three-year objectives to run alongside shorter-term targets. One example from the private sector was of a company, which had introduced a long-term incentive plan for its top forty managers, based on the growth of earnings per share (EPS) over a four-year period. If the target for this was achieved over the period, a bonus would be paid of twice annual salary for directors and of one year's salary for the remaining senior managers.

For some managers short-termism was not, however, perceived as a problem, precisely because individual objectives are set in the light of business plans. An example of a longer-term approach to objectives and rewards was given by a manager in a financial services

organization. A chief officer of one of the councils covered by the study was given the task of getting his administrative systems right, and his boss told him,

“Don’t worry about increasing turnover this year – just keep standards ticking over. Concentrate on getting your administration right so you can break-even in the future.”

A key objective for this year became overhauling the administration, and it was a major part of the person’s appraisal. One council, worried that bonuses for area managers based on performance targets might lead to short-termism, tried to offset this by giving them in addition a set of core managerial activities. These included appraisal, staff development and customer care.

9.2.1.5. What effect does PRP have on team working?

The possible negative effect of PRP and bonuses on team building was acknowledged in around half the interviews. As one interviewee put it,

‘It is a bit of a down side. Some staff in our council argue that PRP is actually detrimental to team working because people are assessed as individuals and work for an increase almost in competition with their colleagues.’

In one case it was reported that one group of employees (in the mailroom) had actually asked their manager to give everyone the same increase to avoid internal conflict. In another authority the senior managers’ targets were imposed on them, having been devised by the chief executive from the business plan and given to them in a way which encouraged them to lean their heads down and singularly go for their own objectives without regard to others.

There seems to be a feeling in some public-sector organizations that PRP is driving people to achieve objectives regardless of the cost in terms of co-operation. As one respondent put it,

‘PRP was seen as not helping team-working, and indeed one of the stated intentions behind its introduction was that there is a competitive element to it.’

Often, however, individual bonuses or PRP and team working are not seen as antithetical, and sometimes bonuses are determined by a mixture of individual and group

incentives. Interviewees reported how increasing teamwork and team-building are often included in managers' objectives. One manager said,

'If it [PRP] does cut across team working, then there is something wrong with the target-setting or the appraisal.'

In one case (a senior executive bonus scheme) each manager's targets were set in conjunction with each other's, and each manager was deliberately given at least one objective which another had too. All the executives were involved in this target-setting process. It was claimed that the introduction of the bonus scheme, two years ago, had increased team-building and that collective working made managers focus on broader objectives than those of their own function.

A different view of the relationship between PRP and team working was provided by another respondent in a different authority,

'I think we encourage people to work in teams because that's part of our working atmosphere and we don't necessarily reward them to work in teams, that's taken as read. What we want is for them to give their individual utmost to team work, so, by encouraging people to work as individuals, that tends to generate good team performance as well.'

PRP was seen by some managers as positively encouraging team-building by providing clear objectives.

'PRP has had considerable impact on co-operation and team-building. Again, because we've got greater clarity, you've got an acceptance that you need to be clear on what is wanted and what fits which part of the puzzle where, and, to have greater awareness of what different managers are doing.'

There were some examples of schemes which had been abandoned because of the difficulty of attributing good or bad performance to individuals. For example, to cope with the problems of rewarding, attracting and retaining investment analysts following deregulation, a department for education in one authority had introduced a complex individual bonus scheme based on individual targets. It subsequently abandoned the scheme in favour of an objectives-based

approach similar to a scheme introduced for other employees, because of the difficulty of attributing success to any one individual.

One authority preferred group bonuses to individual commission on the assumption that a 'good team ream, pulling together' could increase customer service. Group bonuses also dealt with the problem of customers 'reconnaissance shopping', when one office assistant is spoken to initially but the service is finalised by a different officer on a different day.

9.2.1.6. Is PRP appropriate to all organizational cultures?

Some, although by no means all, public-sector organisations (and certainly most of the public-sector unions) have expressed disquiet at the spread of PRP on the grounds that it is inappropriate to the idea of public service. For example, one local authority officer said,

'If you have an organization which has service to the public as a major plank in its culture, that doesn't fit comfortably with the sort of highly financially motivated, driven approach which obviously is felt to work by those who are involved in business. Obviously in a business context the prime measure of performance is going to be profit, and the concept of sharing in the results of the bonuses I think actually hangs together much more logically than PRP in local government, which is actually grafted on to a very different sort of value system.'

However, other similar interviewees found aspects of PRP valuable, particularly its role in reinforcing appraisal systems.

Perhaps the real issue is whether PRP should be used by itself to effect the sorts of cultural change referred to in the previous chapter - for example, to make organizations more customer or performance-oriented - or whether it needs be combined with other changes (which might perhaps be introduced ahead of PRP). Putting the question the other way round, how far does PRP have to fit the prevailing culture to be successful?

9.2.1.7. Does PRP really improve individual or organizational performance?

By and large, personnel managers appeared to rely on informal methods of assessment, based on their involvement in the process, to sense how their schemes were working. Few evaluated the schemes formally and sought evidence of links between the running of a scheme and performance. For example, when talking about the impact of a sales bonus on individual performance, one manager said it ‘cultivates it’. Another, asked about the impact of PRP on output and individual performance, said, *‘I have no straight forward way of answering.’*

Most managers were not convinced that they could pinpoint the effect of PRP on individual or overall organizational performance. One said, *‘I don’t have any way of assessing it, and I can’t conceive of one.’*

For some - especially in the service sector - there are difficulties in measuring output and individual performance. Many organizations, in both the public and private sectors as the literature indicates, do not appear to have very reliable measures of output or of individual performance.

In some situations the relationship between individual performance and organisational performance can seem problematic if an employer has no clearly thought out objectives. If individual performance were assessed on speed in processing claims, and employees were paid on that basis, it could increase the flow of funds out of the firm. As one interviewee in one large authority said, *‘They could be working five times harder than usual, but effectively they are giving our money away.’* Using PRP for such staff was viewed as *‘very difficult’*.

Most managers freely admitted that they did not evaluate pay systems. One manager, who had introduced performance appraisal for workers in his council, said,

‘I don’t think we have actually looked at its success, partly perhaps because we might not want to know the results.’

Another respondent just sensed that PRP was working.

'I don't think there is anything measurable by which we can judge the impact of PRP on performance; because all the external factors are much more to do with effective management, as seen by the top management, than anything else.'

Some managers were sceptical about being able to evaluate PRP in any decisive way. As one personnel manager in a council which had just introduced PRP argued,

'The fundamental problem we have is that you can't compare [what we have done] with how it would have been had we not done it.'

Another argued,

'It's difficult for me to tell, because I haven't seen the alternative, and I'm not in the sort of game where it's easy to assess things - it's not like a production line [where] you could say that under the old system we used to produce 100 cans a day and now we produce 110 cans a day. I can't tell you that, and anyway the situation is changing all the time.'

9.2.1.8. Monitoring schemes

Some managers based their judgements on more concrete evidence, either from exit interviews or from attitude surveys. For example, one said,

'We carry out exit interviews and [these show that employees'] primary interests are the challenge of the job, job content and job interest. The pay has to be right, but after that it is other factors that count. Money is a secondary motivator.'

Many PRP schemes have monitoring built-in; personnel departments co-ordinate all the appraisals and projected increases before they are agreed by senior management. Often the personnel department may query certain suggested payments prior to their being finalized; for example, if the appraisal does not square with the pay. In this way the personnel function acts as what one interviewee called an umpire, trying to guarantee consistency and reducing the number of demotivated people. As one manager recalled,

'For example, we had a situation a few years ago when a manager was very tight in his allocation of merit pay and we had to lean on him to be fairer. He did not even attempt to use the allowable increase in the salary budget. He expected more from his people than perhaps the average manager would have done. That was obviously going to be a very demotivating factor for the people involved.'

It was difficult to establish the precise nature and extent of the monitoring of schemes in the organizations visited. In some cases statistics are compiled - for example, breaking down pay increases by gender, ethnicity, length of service and education level. In one authority, a department does a report each year on the way the salary review has gone and comments on the variability of scoring from one department to another. This is fed back to departments. Another authority, having just introduced PRP, planned to interview a selection of managers and employees about the conduct of appraisals and any problems arising from it. In this authority, as in others, all the appraisal forms are sent to the personnel department after the pay round, so the personnel function can discuss with the appraisers any particular career needs or problems expressed on the forms.

9.2.1.9. Attitude surveys

In the interview programme only one example was found of an authority which regularly uses attitude surveys to ascertain the views of employees. There were two sources: a remuneration opinion survey and a general opinion survey. The following questions illustrate the sort of questions which dominated most of the interviews in respect of attitude surveys:

- *How well do you feel the organisation is doing in matching pay to performance?* - I am clear about the results expected of me doing my job.
- *To what extent do you agree with your manager's appraisal of your performance?* - I agree with my manager's appraisal of my performance.
- *What is your view as to your last pay increase in relation to the percentage available and your performance?* - The most important factor upon which salary increases should be based (the choices were: experience; performance; potential; hard work and commitment; internal relativities; the external market place).

9.2.2. PRP and fairness

9.2.2.1. Can individual performance be measured objectively?

(i) Problems of setting objectives

One of the most commonly quoted problems with PRP is the objective-setting process. In the interviews, personnel managers reported how their line managers, often very new to setting targets, had sometimes said how difficult they found setting objectives which were, in the words of one,

‘challenging but not unachievable, and so payments are motivating rather than demotivating’.

The problem of objective-setting seems especially acute in the public sector, which until recently has not appeared to make extensive use of Management by Objectives. For example one manager who was working with The Council of Civil Service Unions (CCSU) before joining the local government said that, in a submission to a National Audit Office inquiry into the civil service appraisal scheme, said,

‘The CCSU accepts that staff need to know what is expected of them. However, we doubt whether objective-setting is realistic in the case of some grades and posts, and there are genuine fears that it is being used simply to ratchet up productivity. There is too much of a focus on quantity to the exclusion of quality. We are concerned also that the setting of unrealistic objectives may lead to disciplinary action on inefficiency grounds’ (quoted in Labour Research Department, 1990).

And one local authority personnel manager revealed,

‘We are finding that managers are not very good at defining measurable targets and how to set realistic ones. Some targets are too easy and some too difficult.’

There is also the problem that there are some jobs in which there is an opportunity to shine, while in others there is less opportunity – described by one interviewee as *‘the full-back/centre forward syndrome’*.

Underlying the move to objective-setting was the worry that some managers were setting easy,

not hard, targets. Another problem reported is inconsistency between managers, some setting softer targets than others. The fear of soft objectives being set was not, however, one which all managers shared. For example, one manager put it this way:

'There is no danger of soft objectives, because they are related to the business plan, and the business plan is never a soft target.'

To achieve fairness and objectivity in certain organizations each appraiser is overseen by his or her superior. For example, each person appraised may be given both a 'parent' (the immediate superior) and a 'grandparent' (usually the superior's immediate superior) who actually see all the objectives of their subordinates to assess whether they are reasonable. This is not seen as a complete answer. Senior managers are often insufficiently familiar with operational details to be able to pass such judgements.

In schemes which do not use objectives, managers are often given guidelines setting out the kinds of criteria by which they should judge subordinates. But in other cases it is left to managers to decide the criteria themselves as an interviewee in such a situation said,

'It's up to the manager, but I suppose managers consider how they've performed, how they've done their job, what their attendance has been like, to what extent they've met targets, and so on.'

Most authorities seemed to want to have quantitative measurable objectives and hence were especially attracted to financial targets. Clearly, this may be more difficult in the public sector, although not always. As one chief executive of an authority which gives priority to such objectives put it:

'If something matters sufficiently to the business that it is a key objective, then it matters to find a way to measure it'

The danger of this approach, which the interviewee acknowledged, is that managers may shy away from objectives which are not readily measurable. The particular firm was facing up to the fact that, compared with all its world-wide competitors, its performance over the past ten

years had been very poor. Consequently the desire to quantify objectives *'fitted in with the present approach, which is to compare the firm's performance with others, to isolate the causes of the problems'*.

Participation in objective-setting by the individuals being assessed does not appear to be something which firms consider absolutely necessary for successful performance management. But, equally, few if any impose objectives from above. The process of goal-setting seems in general to be a process initiated by superiors but involving *'some discussion'*, as several respondents put it, between superiors and subordinates.

The most commonly perceived administrative problem, or potential problem, is setting objectives in time. In one case the interviewee actually began by saying, *'I've not had mine set yet.'* The first year of his council's new incentive scheme was supposed to have started five weeks before. The problem of getting objectives out on time is not a simple question of managerial competence or speed of response: if managers aim to link individual targets and objectives with overall business plans, the determination of those objectives must await the publication of the business plan.

(ii) Appraisal

PRP linked to objective-setting implies the use of some form of appraisal, although if all the objectives are financial targets (as in many senior executive bonus schemes) then there is no necessary reason for an appraisal: the payment can be formula-based.

With reference to a study of Inland Revenue reviewed in Chapter Four, it was found that 87 per cent felt that *'PRP had made staff question the fairness of the appraisal system'*, 63 per cent believe that *'a good appraisal is too often overruled by someone higher up'*; and 35 per cent felt that *'people get a good box marking not so much because of their performance but*

because managers want to reward their favourites'. Findings like these lead the researchers to conclude not only that there was widespread doubt about the fairness of the appraisal system but that PRP, by being attached to a well established appraisal system, had undermined its core objectives. A similar sentiment was echoed in this local government study. The personnel managers interviewed in this study were clearly aware of these sorts of potential problems: one of the reported difficulties with appraisals was that, whilst *'managers may be trained in the procedures and encouraged to observe correct marking standards'*, they have their own agenda and feel more comfortable being generous to the lower performers than rewarding the high performers. Managers can also set easily attainable objectives, or phrase them in general terms which make it easy to show that they have been achieved.

A further observed danger in linking appraisal with the pay review is that appraisals can turn into individual negotiations, though managers say that the danger is minimized if appraisals are based on pre-set objectives. This was a common reason for wishing to move from 'merit pay' systems, under which managers' assessments are not related to the achievement of pre-set objectives.

Generally, formal appraisal systems were said to be working well. In most, through training and monitoring, managers had been encouraged not to concentrate solely on the previous year's performance but to discuss personal development and to identify training needs. Some appraisal forms had two distinct sections, one dealing with past performance, the other with developmental needs. This was a hard evidence of the existence of a performance management framework in public services.

However, one manager argued that, because the bottom categories of scales are rarely used, PRP and appraisals were not fully effective. He thought that this practice was difficult to

reverse. Because less than 5 per cent of employees were placed in the lowest category it became associated with desperate failure and people singled out. But, he argued, if a larger proportion – he suggested the figure of 30 per cent – were placed in lower bands they would not be regarded (or regard themselves) as being singled out and *‘managers could use it as a constructive category’*.

Some authorities were attempting to counter the problem by separating the timing of the appraisal/performance review from the salary review. The appraisal could then provide an input to the salary review. One firm contemplating introducing PRP to replace its incremental system envisaged keeping appraisal separate. As its compensation manager put it,

‘Appraisal is so important in its own right. It has immense value in itself and it should not be bastardized by linking it to pay.’

One of the reasons for maintaining a separate appraisal scheme in this case was that management wanted the trade unions to be involved in the process. They were seen as having a contribution to make to the improvement of the process, its redesign, selling it to employees, and even in bringing stubborn managers (i.e. those who did not take appraisal seriously) into line. Appraisal was seen as having considerable value, particularly in terms of providing recognition for individuals, and identifying development needs.

9.2.2.2. What about factors outside employees’ control?

Changes outside individuals’ control, happening after targets or objectives have been set and sending them off course, are acknowledged to create problems. An example of an environmental change creating problems of measuring performance was offered by an interviewee previously working a manager in a pharmaceutical firm.

‘The classic occasion occurs when an organisation has a sales target or a market share to achieve, and a competitor releases a new product on to the market.’

Another case is the influence of the recession on retail sales, resulting in managers having to work harder than ever to offset its adverse effects. One company tried to overcome the problem by awarding one-off bonuses which were not permanent additions to salary (and hence were non-pensionable) to people who had done exceptionally well in difficult circumstances. As the manager there put it,

‘Someone may have worked very hard but failed to achieve his/her targets owing to factors totally beyond his/her control.’

The problem of performance-related bonus schemes in a recession raises the question of whether sales bonuses are in fact fair-weather schemes. One personnel manager – and he was not alone – in an authority which aims to motivate people through bonuses linked to target volumes believed that it was almost inevitable that motivation would be affected by downturns if linked to performance. As he put it,

‘In a sense it’s paradoxical. Very often when bonuses are doing badly and people are working twice as hard to achieve anything it’s usually when they are not going to get bonus – and I think that’s depressing and a shame. If you lower the targets it raises another question: can management afford to pay a bonus?’

The dangers of pay not being adequately linked with effort highlighted for the manager concerned *‘why it’s important to have the base pay right against the market’*. It also raises the question whether, at least in some organizations, PRP may be really a form of profit-related pay.

In this study factors apparently beyond individuals’ control were not, however, seen as valid reasons to make allowances for under-achievement. Apart from the harm which can be caused by paying bonus when the organization is doing badly, there may be less obvious links between individual performance and results. To illustrate this, one manager who gave *‘the government cutting off funding for the project you are working on’* as an example of a factor beyond an individual’s control, added that

'This may reflect the failure of the people inside the organization to convince the customer of its merits.'

The problem of outside influences did not carry much weight in another local authority. Taking exchange rates as the 'classic' example, the interviewee argued,

'Of course managers cannot control them. But we expect exchange rates to influence their budgets and business plans. They should take cognizance of this factor when planning. They have to make judgements about it. We pay them to get it right.'

Another interviewee took a slightly softer line:

'whilst you take account of things which happened beyond the individual's control and 'apply sound judgement' you also 'look at whether the manager took steps to mitigate it or just let it happen'.

In most of the local authorities surveyed there was similar scope for flexibility in the operation of many of the procedures. Managers were encouraged quickly to flag up any changes that meant they would be unable to meet their objectives, as one particular objective became irrelevant or another needed to take precedence.

In some cases there were formalized procedures for reviewing objectives throughout the year. For example,

'There are continuous reviews during the year, and formal performance appraisal at the end of the year, so if objectives need to be changed, or reset, that will happen part of the way through the year. If something else comes up that is considered to be more urgent, I have to renegotiate objectives and time scales.'

It is usually intended or formally stated that managers should meet their subordinates at certain stages of the year to review objectives. However, in practice this did not always happen because 'of pressure of time', as interviewees invariably put it. As one said,

'reviewing objectives can be a lengthy process. Assuming you've got a reasonable boss, then lateness should not affect your assessment.'

A good example of objectives changing to reflect changing circumstances is the way in which one organization relying on quantifiable targets to award bonuses for senior managers had added the reduction of working capital to its prime objective (operating profit) in

order to reflect the fact that although sales were down – as they were in the 1990/1 recession – managers could still improve the overall return on capital by reducing stocks and debtors. The company, though not operating a formal individual objective-based PRP scheme linked with an appraisal system, looked at its bonus schemes every year to see whether particular things, e.g. reducing stock in a particular year, should be targeted.

9.2.2.3. Does PRP give rise to sex discrimination?

To respond to this question we have to reflect back in early 90s. Desk research reveals that at the 1991 Trades Union Congress the Association of First Division Civil Servants (FDA), the union representing senior civil servants, alleged that official figures showed that 52 per cent of male civil servants in Grades Five to Seven qualified for extra performance-related payments, while only 38 per cent of women did so. This claim followed an examination of performance awards to about 16,000 civil servants, taking only those of equal seniority at the top of the pay scales. The disparities between men and women were the same for the three grades, in which women make up about 20 per cent of employees. At the time of writing the FDA was reported to be seeking legal advice on whether the pay system was in breach of European law.

However, civil service management said they were satisfied that on the strength of the information available there was no evidence of discrimination against women generally in the award of performance pay to staff in Grades Five to Seven and that any imbalances could be attributed to structural factors. They also said that, if civil service performance pay arrangements were extended, it would be important to install adequate monitoring and review mechanisms in order to ensure as far as possible that discrimination did not occur.

In addition, union monitoring of PRP at the insurance company General Accident showed that, following a successful appeal to the Central Arbitration Committee, awards varied between

locations and discriminated against women, part-timers and older workers. Similarly, union monitoring at British Rail is alleged to have found wide disparities between different locations, individuals with the same appraisal rating not infrequently receiving different awards.

The Equal Opportunities Commission (EOC) has warned that PRP may discriminate indirectly where it is limited in its application to grades or sections of the work force in such a way as to exclude women disproportionately, and where PRP is available only after an extended period of service, which women are less likely to achieve. The EOC says that the rights of part-time and temporary workers must be safeguarded if pay is performance- related, and such workers within the job category covered by the scheme must be included. A clause excluding part-timers from a PRP scheme for NHS managers was removed after a complaint to the EOC in 1987.

Public-sector employers were made aware of the possibility of sex discrimination: in a report published in November 1990 (PRP Report No. 4), the Local Authorities Conditions of Service Advisory Board (LACSAB) said,

'So far as the coverage of PRP schemes [local government] is concerned, they are at present mainly applied to senior employees, who are primarily male, and even where PRP has been extended down the organization more generous payments tend to be available to those at the top of the hierarchy. In many cases, therefore, it is probable that the introduction of PRP will widen internal pay relativities and will also widen the salary gap between male and female local government officers, because of the disproportionate concentration of women in lower grades. It remains to be seen how these arrangements will be viewed under the Equal Pay legislation.'

Apart from the General Accident case, all exposed instances of possible sex discrimination appear to have arisen in the public sector and all the cases which have earned publicity have been in unionized environments. In only one of the interviews, where there was explicit monitoring by gender of the results of appraisal, did it emerge that these concerns had surfaced as yet. However, LACSAB's conclusions seem sensible and would appear to be applicable to

sectors other than local government. LACSAB argued that, especially where PRP extends below senior management grades and covers an increasing proportion of women,

'It will be advisable for procedures to be developed specifically to monitor the distribution of performance payments between men and women; and to pay specific attention to equal pay in the design of PRP procedures. The operation of an appeals procedure and the involvement of unions in PRP schemes may also help to ensure that equal pay requirements are met. Management need to have awareness and to take positive steps to eliminate discrimination, in order to avoid the possibility of PRP schemes being operated unfairly and to the detriment of women employees.'

9.2.2.4. Reservations about discrimination of PRP awards

Lack of discrimination in awards may be the result of group norms regarding equity or equality of treatment. It may also be due to the manager lacking the confidence or ability to discriminate effectively between employees or to gain acceptance by employees of performance pay awards that do discriminate. Discriminating in favour of those whose performance is more than fully satisfactory or outstanding increases the-risk of demotivating the majority of staff whose performance is rated as fully satisfactory.

A second potential problem with schemes that allow managers the discretion to discriminate widely in their allocations of increments is that practices will diverge between work units or departments. This could lead to gross inequities as staffs with similar histories of performance ratings come to have significantly different earnings.

The discretion allowed under this scheme in which there are no specific links between performance appraisal and pay awards, allows individual managers or departments much greater flexibility in their use in a critical resource, monetary rewards. At the same time, however, it increases the risk of bias and inconsistencies in the allocation of awards. Another potential problem under discretionary systems is a lack of adequate discrimination between individuals whose performance clearly warrants different levels of awards.

Standardising the links between appraisals and pay awards is one response to the potential problems that arise when individual managers or departments are allowed full discretion in their allocation of merit increments and bonuses. There are, however, alternative planning and control mechanisms for managing the potential risks associated with decentralised systems that allow greater discretion to individual managers. These include consensual decision processes in the allocation of awards, and regular monitoring and review of the operation of systems.

9.2.3. Financial and performance management

9.2.3.1. What are PRP's effects on pay costs?

With respect to this question few interviewees believed that PRP had added to the overall salary bill. In some cases managers said that wage costs might actually have been reduced. In one organisation, for example, it was reported,

'The overall spend is lower than on the old cost-of-living and merit structure. We have been able to contain costs better, as we save on poor performers.'

The director of finance argued that with the improved identification of poor performers, some of whom had left the council under an early retirement scheme, the total salary bill had gone down, as their replacements had joined on a lower salary. The general conclusion was that the organization got better value for money with performance-related pay. As the interviewee said,

'By rewarding for contribution you are looking at how pay impacts on the bottom line. In other words, if you are paying an extra pound you are getting better performance for it.'

Although some interviewees found it difficult to assess the impact of PRP on the overall salary bill, the general view was that PRP was self-financing, that it had not led to higher overall wages for average performers, and that the linking of pay to performance had meant that *'Managers are much more conscious of the costs of their salary budgets.'*

9.2.3.2. Do budgets constrain PRP's proper distribution?

Few organizations have 'forced distributions', limiting the percentage of employees who receive each assessment grade so that, for instance, only 5 per cent are rated 'outstanding', 15 per cent as 'highly effective', and so on. But most interviewees recognized that the budgeted salary bill acted as a constraint on the overall distribution (so that managers might be reluctant to put too many in the top assessment grade because that would result in their having to put more than they would like in the lower grades), and many interviewees said that in practice a typical distribution emerged each year. For example, one organization's 'normal distribution' was 40-50 per cent in 'fully acceptable' (the second category) and 20 per cent in 'above standard'.

However, 'Manager MN to pay subordinate PQ' was reported to be a problem in one organization and was seen 'not to be fair' by the interviewee there.

'If you think about it, it's actually penalizing a division that might be performing extremely well. You might have got a group of people who are performing extremely well, all would be entitled to get the top increase, but you couldn't actually pay them all that.'

Consequently, very few people were receiving the top grade of PRP, which was causing 'a lot of frustration'. In this regard public-sector managers compared their treatment unfavourably with that which they thought happened in the private sector. As the manager quoted above confirmed,

'There is a fair bit of frustration around, because it's actually seen as penalizing the high performers. And also the actual percentages are really quite low. You can be flogging yourself to death and end up with a fairly low percentage, compared to outside industries.'

The survey of Inland Revenue staff referred to earlier in the chapter showed that 74 per cent of respondents believed that *'Staff are frequently denied the box marking they deserve because of a quota system'*.

9.2.3.3. How closely is PRP linked with performance management systems?

Wright as quoted in Neale (1991) argues that even the most ardent supporters of PRP recognize that it is extra-ordinarily difficult to manage well. The interviewees have also reinforced the same view. In many cases there has been insufficient clarity about the aims and objectives of PRP, that schemes have not always been drawn up with sufficient care or forethought, and that more attention needs to be paid to evaluation, monitoring and improvement. This is discussed in the next section.

Moreover, not all modern management theory points so explicitly to PRP as its proponents often imply. The theories underlying Deming's quality management (Scherkenbach, 1990) and the Harvard School's version of human resource management (Beer et al., 1984; Kanter, 1990) both advise against PRP, as well as against over-emphasizing pay and its link with 'successful' performance. Some modern psychology's emphasis on the importance of goal setting in performance may suggest that better results may be achieved without the frustration and potential demotivation of PRP, that is, with a high basic rate plus well specified targets (Locke et al., 1991).

Relatively few organizations put PRP in the context of performance management systems (PMS), which emphasize objective-setting and formal appraisal. Yet there is evidence, most notably from a survey carried out by Bevan and Thompson (1991), that

'In terms of the effectiveness of performance-related pay, respondents perceived it to be more effective when sitting alongside policies to manage employee performance either as part of a PMS or as part of a more general approach. . . . There was also some evidence that performance management could be effective when not linked to PRP.'

This raises the question of whether PRP is actually necessary to improve performance: might not other policies associated with PMS be enough to achieve this without PRP? The issue is echoed in one of the conclusions of the Inland Revenue survey, that very many staff feel

they are already working to the right standard and that they cannot improve. This may or may not be true but, if it is untrue, it would seem that management has to do much more than merely offer cash.

9.3. Quality issues: the British local government experience

The general consensus of respondents in this case study is that 'quality' is important in local government for four reasons: (1) it is a way of ensuring that services are 'fit for purpose' and meet the needs, consistently and sensitively, of the immediate consumer and of the society as a whole; (2) Good quality services increase satisfaction of both consumers, who gain greater confidence in the local authority; and of producers, who can take pride in their work if they feel it is of a good standard. This is good for morale, and a further stimulus to improvement; (3) Attention to quality draws attention to the effective use of resources. The thesis stresses that a quality programme should not be a hidden agenda for cuts, but savings from eliminating 'non-conformance' and from better coordinated processes can be directed to achieving better and more effective outcomes for the local people; (4) If attention is not given to quality locally, poor performance could draw in external intervention and provoke the transfer of services away from local government control.

These are four good reasons for developing policies to develop better quality services in a local government system. They may seem self-evident. Why has it proved so difficult to put these ideas into practice, and what could be problems in the future? A number of lessons can be derived from the experience of the British model and are briefly highlighted in ss.10.2.2.4 of the next chapter.

9.3.1. Service quality in local government

A focus on service quality is part of the general direction of public management reforms being pursued by OECD Member countries. The main reason for this is to improve the responsiveness of public sector institutions to their clients. The British local authorities pursue this strategy by requiring and encouraging a greater emphasis on performance and results. The client is seen as an agent in evaluating performance and as an agent of change complementing more traditional mechanisms.

Follow-up interviews indicate that nearly every British local authority is doing considerable work on service quality. Some authorities have chosen to mount specific and high-profile initiatives while it has been an ongoing and implicit aspect of wider performance management initiatives in others. Examples of components of service quality include timeliness, amount or volume, accessibility and convenience, availability or continuity, accuracy, safety, and appropriateness or suitability. Other qualitative factors are also important like pleasantness and simplicity.

It is unfortunate that quality initiatives have often been introduced piecemeal, top-down and without clear purposes. This has meant that they have been misunderstood, misapplied and have been dropped before they have had a chance to prove their worth. Councillors have been relatively little involved in quality programmes. As a consequence opportunities have been missed to integrate quality with the mainstream of policy development, to ensure that specific initiatives reflect council values, and to be part of the project of democratic renewal at the local level. Quality policies have often been regarded as managerial 'add-ons' rather than programmes of fundamental change and reorientation.

9.3.2. Developing a framework for managing service quality

For many years in Britain it has often been difficult for people - staff and councillors - to make a distinction between a quality method and the idea of quality itself. This may be the fault of the missionaries, who tend to oversell the benefits of their particular approach. But it is also because it is usually hard to see where a particular initiative fits into a broader whole. This is because the 'whole' itself is unclear.

The study therefore tries to provide the 'glue' that brings the whole thing together. Whether the emphasis at one time or in one place is on, say, developing written standards, on performance measurement, or on a particular system such as quality assurance or customer care, the framework can locate this within a wider picture. This helps bring the detail into perspective, and provides clues as to what needs to be done next.

Quality is not about appointing a lead officer and telling them to get on with it, though lead officers can and do make an important contribution to developing ideas and supporting staff to try them out. Far more important is the notion that, since services are produced as a result of a whole series of actions, involving different actors at different points in the 'service chain', it is crucial to generate a process where all those involved and affected are and feel a part of it. This is the route to ownership and commitment, to cross-departmental and multi-disciplinary working, and to the attention to detail at every stage of the service process that is essential for real and lasting improvement.

The authorities responding to this study have taken different and distinct approaches to quality improvement. This diversity reinforces the idea that there is 'no one way' of tackling 'quality'. All have, however, addressed quality issues corporately and as a major priority. Some chose BS5750 as their primary vehicle, gaining recognition for all council services in 1993 and council wide ISO9001 in 1994. Under new (Labour) leadership these councils are

now shifting towards a community orientation, linking this with the existing internal quality systems. Some authorities carried out pilot projects starting in 1990/1, providing a 'template' and corporate support, but expecting each project to develop its own approach. A wide range of methods have been used in practice, linked with the 'community government' policy developed at the time.

Other respondents have similarly linked quality developments with democratic issues and decentralisation. A central unit has led the developments, acting as internal consultants and pushing the corporate aspects of service delivery. A key issue there is 'diversity consistency' - how to respond to different needs at the same time as achieving some basic standards. In one authority, 'continual improvement' (arising out of the Deming approach) is the starting point, explicitly aiming to achieve an integrated, holistic and long term approach to quality developments.

These are all complex matters, to which there are no simple answers, and certainly not 'one' answer. Authorities right across the U.K. have been working to improve the quality of their services over the last decade. The subject is not new. However, much of the work has been done in relative isolation, focusing on different aspects of quality and quality processes, often without the chance to compare notes or to see how the pieces of the jigsaw might be fitted together. The concluding remarks consider the role of key actors – councillors, senior managers, middle managers and front line staff - in developing and sustaining service quality. The main conclusion is that they all have an important role to play as a team with a common goal.

9.4. Research implications for performance management

Though in assorted ways, this research has implications for performance measurement and management in local government. These may be classified into six levels as follows: measuring performance and collaboration; the balanced approach to strategic PM; culture implications for PM; performance measurement implications for PM; increased demand for accountability to community; and perceived pay-to-performance relationship.

9.4.1. Measuring Performance and Collaboration

(i) Measuring performance

At level one, this research provides evidence of the measurement of both efficiency and effectiveness. There is no doubt that local government is extremely concerned with the measurement and management of cost efficiency. Given the British Government's emphasis on reform to modernise public services and achieve efficiency, particularly through private-public partnership and BV philosophy, this is not surprising. The study shows a tendency for the use of accounting controls such as financial performance measures to increase as the intensity of competition increases. Greater clarity around financial performance is essential in the drive for the efficient provision of Best Value or value for money services in a competitive environment.

(ii) Community collaboration

There is also emphasis on managing effectiveness of outcomes, in terms of customer satisfaction, and in specifying outcome measures during the planning process. Significant community input at the planning stage ensures outcomes are much more in line with community expectations. Community collaboration in much of the local government strategic and other planning processes results in specifying and delivering services which meet the needs of the local community. There has been a change from government to governance, brought about by the interaction between government and society.

(iii) Political Accountability to the local community and consultation

Political accountability of a local government to the local community is to enhance, strengthen and widen the role of the members of the public in setting forth their own development plans. In this respect, the study observed that local authorities in Britain are very much aware of the importance of community perceptions of their performance, and of their accountability to the community. They are measuring and managing their performance in relation to community standards, and taking a strong community focus with significant consultation and information provision to the community. It is also interesting that in this perspective, local governments are managing areas such as community consultation, which are critical to achieving effective outcomes. Community consultation in the corporate planning process further suggests that there is a strong strategic focus to PM as consultation helps set strategic goals.

9.4.2. The balanced approach to strategic Performance Management

At the second level this research examined the issue of the comprehensiveness of performance management and its linkages to long-term strategy. There is evidence that performance measures cover the four dimensions as specified in the Kaplan and Norton's (ibid) balanced scorecard approach (BSA), although they are not balanced over the categories.

(i) Community focus dimensions

Overall, the study has found that British local governments have a range of measures which are used to manage performance across financial and community focus dimensions – the results dimensions or primary objectives. These measures are also linked to strategic priorities - financial measures are tied to long term corporate plans, and there is a strong sense of community input into long-term strategic plans. In contrast, based on the evidence gathered the research concludes that whilst there are good examples of managing performance in the innovation and learning and internal processes dimensions, these determinant dimensions are much less well developed.

(ii) Financial performance implication for long-term survival

Financial performance is linked to the wider organisational context. It is strongly linked to long term strategy, in that annual budgets are prepared in the context of long term financial plans which are themselves part of the corporate plan. The strategic implications of financial performance are enhanced by having financial performance as a key result area for performance based bonuses for managers. Financial performance management is essential for long term survival in the context of reduced revenue expenditure and increased community expectations.

PM requires performance indicators but simply measuring performance is not sufficient for performance management. Some performance indicators required by the Audit Commission (AC) are dysfunctional as they do not add to the information which is needed to manage. Preparing them requires time and effort which would be better used elsewhere. On the other hand, lack of useful financial performance information hampers the management of performance in a number of areas.

(iii) Internal process reviews (IPR)

IPR ultimately determine the success of council strategies. There is a need for more integration of the strategic framework into internal process review. Continuous internal process reviews are important in the continuing emphasis on cost reduction and efficiency management, which is a strategic priority for all councils and in reviewing service provision to customers in a customer focussed environment. While process reviews are being undertaken, lack of measures to determine internal process performance is a hindrance to managing them. The development of better performance measures may provide the impetus for councils to be more proactive in managing internal processes.

Workload indicators are one way of measuring internal process performance. At the managerial level, it may be that workload indicators are not perceived to be particularly important. A limitation of this research may be that insufficient evidence was gathered about

the use of workload indicators at lower levels in councils, which may have indicated that more emphasis is placed on internal processes at these levels. Process mapping is another way of assessing internal processes, and there is a lead given by one council which has embraced this technique enthusiastically.

(iv) Innovation and learning process is not systematic

Finally, the study observed that innovation and learning occur largely on an *ad hoc* basis in local government, with few formal performance indicators or attempts at an organisational level. The managers and directors largely agreed that innovation and learning is important, but the creation of a learning environment is not formally addressed. However, there are documented guidelines as to how such an environment can be created: awards for innovation, heavy emphasis at senior levels on training and work-shopping ideas and strategies for the shape of the council in the new millennium.

9.4.3. Corporate culture implications for PM

The issue of corporate culture is the third level at which the results of this research can be implicated. Councils that are best managing their performance are those in which management is actively engaging with employees: where there is a connection between the managers and the employees. The research observed that there is a culture of openness and access in these councils. Information is freely available throughout the organisation. These results confirm and reinforce an argument that a public agency's traditional ideals, norms and values must change if it is to inculcate a performance oriented culture (Martin, 1999; Dixon, et al., op. cit.). The balanced scorecard/results and determinants models encourage a performance centred culture. They emphasis quality, adaptability, the leeway to make mistakes and learn from them and a commitment to stakeholders.

9.4.4. Performance measurement implication for PM

At the fourth level, this research questioned whether performance measurement *per se* is a source of motivation which leads to enhanced PM. Some aspects of performance may be measured but ignored in the management process due partly to conflicting accountabilities to different stakeholders. A number of measures required for accountability to the central government were ignored in day-to-day management, whilst other performance measures were clearly used to drive performance and accountability to the community. Conversely, performance cannot be well managed without measurement. The study observed that financial and community measures are measured and well managed, but internal process, innovation, and learning are not measured to the same extent and are less well managed.

9.4.5. Increased demand for accountability to community

At the fifth level, consistent with the growing literature on government accountability, this research demonstrates an increased demand for accountability by all ‘environmental’ and ‘process’ stakeholders (the community, employees and central government) of local government. Perhaps the most interesting aspect of the increase in accountability to the community is that it is being driven by managers who want to be more accountable to the local community, and who exhibit positive attitudes to those government requirements which increase accountability to the local community. Improved performance measurement systems allow them to better demonstrate their achievements to the community and to the government. However, performance measures which do not contribute to the management process are considered to be dysfunctional.

9.4.6. Perceived pay-to-performance relationship

A commonly stated objective for PRP schemes in both public and private sectors is to strengthen the belief amongst managers that rewards are linked to performance and thereby to

make them feel more accountable for their individual contributions. According to AGREE theorems that underpin PRP, a perceived relationship between performance and pay awards is a necessary condition for employees covered by the schemes to be motivated to higher levels of performance (Vroom, op. cit; Milkovich and Newman, op. cit). The assumption is that the stronger and more widely held the perceived relationship between pay and performance, the greater will be the effect of pay awards on individual motivation and performance.

The evidence gathered in this study shows that ambiguity regarding the relationship between pay and performance leads to diminished performance effects at organisational levels. Ambiguity about the determinants of performance pay also leads to lower levels of perceived pay equity and lower levels of satisfaction with pay. Therefore, the relationship which staff perceives to be existing between performance and pay awards provides a measure of the likely effects on performance-based pay scheme. The interviews examining the perceived pay-to-performance relationship have also covered issues relating to the following: (i) Factors affecting perceived performance-pay linkage which may be related to performance appraisal mechanisms and/or pay related.; and (ii) Importance of perceived link between pay and performance

9.4.6.1. Objections to performance-pay linkage

There are those who object to any link between performance appraisal ratings and pay awards. Their objections are based on one of two concerns. First, that PRP will lead to a preoccupation with the monetary awards during the performance planning and review process and will subvert the developmental purposes of appraisal. Further that, this may also create an added pressure for lower levels and inflated ratings in appraisal. One approach to dealing with this problem is to conduct the performance review at a different time from the pay review. The second concern relates to the reliability and validity of appraisals as a basis for discrimination.

Adequate managerial skills are crucial if this concern is to be properly alleviated.

9.4.6.2. Appraisal ratings and pay awards linkage

One potential benefit of a standardised relationship between performance ratings and pay awards is that it can strengthen the incentive value of the awards by providing a clearer link between performance and pay. There is likely to be greater ambiguity regarding the relationship between performance and pay in more discretionary schemes in which the award for a given level of performance is decided after the fact. This argument, of course, assumes that performance appraisal system distinguishes between different levels of performance.

Against this must be weighed the evidence discussed earlier which indicates that the appraisal systems used in at least some schemes are not effectively discriminating between managers. Added to this is the fact that performance appraisals are used for purposes other than salary decisions, such as motivation and development of staff. Performance ratings which serve these other purposes may not provide the level of discrimination required for pay allocation decisions. Judgements of an individual's contribution may also include a range of factors that are not included in specified performance criteria or appraisal plans. Non-standardised relationships between performance ratings and pay allow greater latitude for these supplementary factors to be taken into account in the decisions on pay awards. But they carry the risk that decisions will be based on factors that conflict with the criteria used in the appraisal process so that pay awards do not appear to be related systematically to performance ratings.

9.4.7. Motivation of public sector managers

By and large, the evidence gathered indicate that a number of factors may have been responsible for inspiring motivation for increased performance, including the symbolic status of a pay increase signifying recognition of well accomplished work and the increased and more effective channels of communication opened by the introduction of PRP schemes.

The evidence further indicates that in this case the ability of pay to motivate a typical public-sector manager was more likely to succeed in certain environments. The ethos of paying for performance appears to be widely accepted in some organisations, whereas in others, it is resented. Although no variables such as length of service, or age of employee were found affecting this viewpoint, it may be considered that 'system' rather than 'person' factors (see section 3.2.2 of chapter 3 on factors affecting performance) may have a direct impact on the acceptability of PRP.

The follow-up interviews indicate that culture tailored to a particular organisation is considered a significant factor in the determination of a successful strategy to motivate performance managers. This confirms one aspect of the hypothesis of this study that the satisfactoriness and motivational value of a PBI's policy is a function of organisational capacity to accommodate such a change.

9.5. Conclusion

Generally, this chapter has examined the practical implication of PRP as a motivational strategy in British local government. The initial motive for introducing PRP is two-fold: first to improve labour supply (focusing on the pay side), and secondly, as a tool for raising performance in service delivery. The process of introducing PRP did not involve trade unions but rather a direct appeal to individual employees to join the scheme. This kind of approach left the future of industrial relations in the local government system unclear, especially with respect to collective bargaining. Also the process had external management consultants playing a vital role in the designing of PRP schemes where they had encouraged the use of results-orientated assessment often coupled with to a salary matrix.

The coverage and definition of PRP, the techniques of performance review and the magnitude

of performance payments differentiates the types of PRP scheme. The research shows that pay can be linked to individual performance in a number of ways and that PRP can be applied to a wide range of occupational groups. What this suggests is that before introducing PRP an organisation must examine the various options available, survey employees' attitudes, and then select those which support its objectives and which match organisational constraints and management.

In managing PRP the research observed that it is important to match the scheme with management style. That is advancing a policy of strengthening the position of line management and devolving decision-making. The rationale behind a flexible management style is that managers will perform at higher level if they are given greater control over resources, but are then held to account through robust indicators of effective output, equal opportunities and objectivity.

The chapter has attempted to integrate the conceptual framework of motivation theory with the reflections from case study interviews and discussions within British local governments. The interviews were guided by three generalisations of motivation theories of goal-setting, expectancy, reactance, achievement and equity due to their relevance to this study. Important themes recurring from this case study are that individual PRP systems inevitably change the distribution of wages within a profession, which may raise inequity issues leading to some degree of de-motivation for those who think the new distribution is unjust.

Secondly, although PRP is perceived to be one of the sources of motivation it can also be a demotivator if the conditions are not right. Organisational culture, managerial skills to measure performance, size of awards, the purpose and scope of the scheme are key examples of such conditions. People need to feel that a change in behaviour will produce sufficient reward and vice-versa. Some ill-thought-out schemes may have adverse affects on medium and

long-term well being of organisations as they may encourage shorttermism. PRP can have a negative effect on team working by over-emphasising individualised incentives. As long as the basic measure is not exclusively individualised this can be countered by including team-building and in interactive objective-setting.

The issue of fairness of PRP schemes as examined in this chapter is in the context of objectivity of individual performance measurement, externality aspects, and as a source of discrimination of employees. In respect of objectivity, the experience is that it can be difficult to set measurable and realistic targets, particularly where financial targets cannot be used or are inappropriate. It can be difficult to achieve consistency between managers, both in terms of setting targets and in terms of appraising people. PRP thus puts a new emphasis on the relevance of formal appraisal schemes. This requires training and monitoring. Some authorities attempt to counter problems of appraisal being turned into negotiating sessions by separating the performance review from the pay review.

Identifiable factors outside employees' control (i.e. externalities) such as downturns in the economy can reduce individuals' performance pay, though they may be working harder to compensate. Thus it is important to have the base pay right against the market. But people should try to mitigate outside influences, and this can be taken into account when assessing performance. Some organizations allow objectives to be reviewed in the light of outside events or changed priorities; others do not encourage this.

Issues arising from PRP's links with financial and PM were the schemes' effects on pay costs, the funding of the schemes and their integration with PM framework. PRP is perceived to be self-financing when it provides better value for money by encouraging better performance. Others, however, find it difficult to assess PRP's impact on the overall salary bill. Equitable distribution of PRP awards is limited by budget constraints. PRP is not closely

linked with PM systems which emphasize objective-setting and formal appraisal, or have seriously attempted to monitor PRP schemes. There are also some claims that PM could be effective when not linked to PRP.

Thirdly, service quality initiatives in British local authorities cover a wide range of issues. These include, among others, determining who are the clients, consultation mechanisms, the setting of service standards, and the provision of information to the public. Others include the provision of choice, the development of complaint and redress mechanisms, development of quality management, and quality awards.

The practical implications of the schemes and the strategic approach to managing performance are the final focus of the chapter. By and large, the enthusiasm expressed amongst public sector employees who have experienced PRP tends to be modest. In this sense, real antipathy amongst staff is more common than real enthusiasm. In addition, the respondents have consistently been of the view that these schemes seriously threaten team-working and co-operation. Hence this finding suggests that individual PRP in the public sector has been, variously, counter-productive, or, occasionally, has scored a very modest success. Although in theory PRP is believed to promote cultural change in organisations, the general perception on the ground is that in isolation it is not an appropriate strategy.

PART V

Conclusions, Research Implications, and Areas for Further Research

Chapter Ten

CONCLUSIONS: A VIGILANT APPROACH FOR DEVELOPING ECONOMIES

10.0. Introduction

The study was set-up after observing that for researchers the ‘quiet managerial revolution’ taking place in public service performance management practice has created tensions between those who manage the services and those who are managed within them. Consequently, this trend has prompted an academic debate for and against the novelty, objectivity and compatibility of market-type motivational strategies in public sector domain towards which this study seeks to contribute.

The problem addressed in this research is *“How compatible are market-type motivational strategies in managing performance in political institutions such as local authorities?”* In order to address this problem and for operational convenience, the thesis argues that the general goodness-of-fit of market-type motivational strategies in public services is attributable to three main issues: (i) capacity of PSOs to regulate and monitor ‘imported’ market-type managerial principles and practices; (ii) objectivity of performance measurement and accountability processes; and (iii) equity perceptions of stakeholders about performance-related incentive schemes. A topic guide (see Appendix A) was generated highlighting key research issues about which data has been collected.

Responses to these issues are, not only indicative of the degree of managerial acceptance of the PBIs, but also signify the capacity of PSOs to adapt to contemporary managerial reform practices transposed from the private sector. Most importantly such responses attest the generalisability of process motivational theorems of AGREE. This chapter has three main aims:

(i) to summarise the key research findings and conclusions; (ii) to synthesise the theoretical implications of the study; and (iii) to pinpoint potential areas for further research.

10.1. Summary of key research findings and conclusions

The long-standing debate about the compatibility of market-based management techniques in PSOs and what motivates public sector managers has by no means been resolved through this study as further research is still called for. However, some interesting conclusions and lessons about the subject matter can be drawn. Overall, this research is guided by a multi-theoretical framework of motivation (AGREE) to examine the research problem. The key findings and related conclusions in response to research questions as outlined in Appendix A can be classified into six categories as presented below.

10.1.1. Capacity of PSOs to accommodate imported changes

The first key finding is about the emergence of a ‘new’ culture of rewarding managerial performance in the public sector. The structural change and institutional arrangements have greatly enhanced the capacity of BLGs to deliver value for money public goods and services. This has also made it easier to introduce new private sector management techniques in local government system. Other new techniques have also influenced the local government managerial attitude in the delivery of public service in UK. For example, CCT, contracting out and internal markets have significantly accelerated competition and forced public services to adopt PM strategies and techniques with or without PRP schemes. Skills in designing and managing service contracts have become imperative, as services are ‘exported’ to private sector or as contracts are used amongst internal business units, within the local government system.

Based on this finding we can make two major conclusions about capacity of PSOs to ‘accommodate’ the emergence of a ‘new’ culture of managing and rewarding performance in

the public sector.

- (1) The change process in public sector, which comprises such techniques as PM, is not a "quick fix" involving one universally applicable model. Such massive organisational change processes should be conceived as an incremental learning process in which the limitations of five dimensions of PM model techniques must be recognised.
- (2) Developing goal-oriented employees in local authorities requires the following ingredients:
 - transparent processes of recognition and rewarding individual contributions;
 - understanding and satisfying their intrinsic (rather than extrinsic) motivational desires; and
 - a fair and equitable linkage of their performance to pay packages.

However, an interesting “*by-product*” question is that: does this contemporary tendency of rewarding performance imply the beginning of a ‘new era’ of managerial culture or does it signify the beginning of the end of a conventional gulf between private and public sector management styles?

10.1.2. Attributes of a successful PRP scheme

Based on the discussions with the interviewees, it appears that organisation specific PM and PRP schemes are viewed positively by local government managers as effective management tools for improving the quality of performance. They argue that management of quality reflects acceptance by public managers that the users of public services are their "customers" and “clients”. However, with various factors such as service quality or productivity, employee satisfaction, increased motivation and competition at stake, it is difficult to assess which criteria contributes to the success of a PRP scheme. Perhaps the achievement of the original objectives of the schemes could be offered as a starting point.

Given this scenario, it is obviously worth considering whether its evident achievements in some labour markets can carry over to others such as local governments. The available

evidence from this research suggests that it does not. More precisely, the evidence indicates that not all forms of PRP schemes succeed everywhere. In particular, individual PRP does not seem to have a strong motivational impact on people who work in public services in UK unless the pay package is really substantially attractive.

PRP scheme are perceived as contributing to increased motivation and an increase in organisational performance. However, in contemplating what exactly constitutes a successful scheme, it seems worthwhile to point out the implications of defining the success of the schemes. Lack of significant empirical evidence as a means of monitoring the schemes' success leaves little guidance in finding a point of evaluation. Therefore, the dilemma of choosing the most appropriate criteria on which to judge a scheme's success remains a misery.

10.1.3. Motivation of public sector managers

The research also found that PRP was most successful in motivating the most junior grades and those with the shortest service, although, even among these groups, most of them reported no motivational effect. The effects on motivation were generally weakest among the more senior grades and the longer-serving staff.

The reason for this could be that as a percentage of salary, a PRP award was more valuable to staff on the lower grades, and because many in senior grades have a somewhat different view of their work, with already higher levels of motivation. If this finding could be shown to apply in other organizations, it could cast doubt upon one of the conventional wisdoms of PRP: that it should be introduced for senior staff first and gradually extended down the hierarchy.

Three conclusions are possible based on the preceding evidence.

- (a) Firstly, it is suggested that the flexible adaptability of the reward scheme in the implementation of PRP in various departments is considered the most appropriate source of motivation of public sector managers;

- (b) Secondly, it is highly important to take into consideration an organisation's history and culture when designing and implementing a performance-related reward package so that the two are compatible with each other; and
- (c) Thirdly, in conjunction with the goal-setting theory, the degree to which public sector managers are involved in the setting of corporate objectives is another key source of motivation.

10.1.4. Linking pay to performance: principle versus process

The vast majority of respondents are in favour of the principle rather than the process of linking pay to performance. These positive attitudes are more widely demonstrated by public managers who have had some direct experience of PBI schemes such as PRP, even when those schemes have been judged as being failures. Such attitudes appear to be motivated by beliefs that performance-based reward systems do enhance the performance of PSOs and that it is more equitable to allocate rewards on the basis of managerial contributions to organisational outputs and outcomes.

Overall there is a general perception that the process of linking pay to public service performance is ambiguous and subjective. Besides, it is beyond the scope of this study to evaluate whether this principle is practically effective or not. It is important to make a clear distinction between the 'principle' and 'process' of linking pay to performance.

10.1.5. The balanced approach to performance measurement

Of the four dimensions of the Kaplan & Norton's balanced scorecard approach to measuring performance the study found that innovation and learning indicators are encouraged but not measured. Performance measurement for accountability has three basic building blocks: the dimensions of performance which an organisation is seeking to encourage; the standards to be set; and the rewards or penalties associated with achieving performance targets. There is a widespread recognition that the dimensions of performance are broader than financial

performance alone, that financial performance indicators measure and make visible only limited aspects of an organisation's performance.

Accounting systems are used to measure performance because they are considered to be reliable and consistent. Also because they mesh with the primary objective of 'value adding' for stakeholders. However, there is a growing concern amongst local government managers that concentration on financial measures is inadequate for strategic decision making, and indeed for full internal management and control.

Local governments, as learning organisations, are ultimately accountable to the local community through better PM practices. Measuring innovation is a step towards achieving this end. Long-term survival is linked to an organisation's chosen strategy, and the strategy determines what must be measured. Measuring short-term financial results only can have dysfunctional consequences to organisational long-term survival.

10.1.6. Equity perceptions of PRP schemes

There is a general perception that through PBI schemes individual efforts and achievements are recognised. With less than half of the respondents feeling that the schemes help them to see how their work contributes to the organisation as a whole, about a quarter of them think that the schemes have yet to overcome some of the difficulties in their organisations. However, although a minority are of the view that PRP schemes have helped to increase communications with their line managers, the majority agree that the schemes have helped them to figure out what their organisation's goals and plans are for the future.

Examination of further equity dimensions indicates a general consensus that it is essential to relate pay to performance although the schemes are practically unfairly operated. Pay is perceived to be an irrelevant motivator if the package is unattractive and feedback is

ineffective. The main purpose of a PBI scheme is to cultivate organisational achievement culture and its main drawback is attributable to coverage of the schemes. The respondents are concerned that PBIs contribute to short-termism objectives and accept that goal-setting process encourages joint consultation and is a significant incentive.

One of the major requirements for designing of an equitable performance pay schemes is that the award differentials between high and low performers be sufficient to emphasise to employees that high performance is well rewarded and that low performance is not rewarded at all. There are two components to these differentials. First, there must be a dispersion of awards across individuals so as to reward a range of performance levels. Second, there must be significant variations in the size of awards given to staff whose performance is at different levels in a given period. In order for a PRP scheme to operate equitably it requires a supporting infrastructure. No single programme, policy or system is likely to have much impact on one organisation. For the human resource approach to the management of culture to have any realistic chance of success an integrated package of initiatives will be required.

In general, the examination of various parameters of equity dimensions of a performance-related incentive policy in the British LGs indicates a skewed support of the strategy. The main conclusion to be drawn is this that the schemes are installed on a flawed environment on one hand and are not organisation specific on the other. This exposes them to criticisms of being unfair, divisive and incompatible with traditional values of political institutions such as local governments.

In political institutions like local governments a vigilant approach needs to be adopted when formulating and implementing an incentive and reward policy for employees based on performance. The process motivation theories of AGREE have an important role to play, if and only if, all parties involved in this process are aware of practical implications of these

theories. A PBI scheme such as PRP generally becomes ineffective when imposed as an ‘off-the-shelf’ ‘stand-alone’ incentive package without prior consideration to both process (establishment) and environmental factors (external stakeholders).

Overall there are mixed research observations. On the positive extreme the study has observed that when pay awards are based directly on performance ratings, there is a reciprocal pressure on managers to use the appraisal process effectively and to be able to justify their ratings of the staff. Without this pressure, managers often fail to spend adequate time or effort on appraisals, and related benefits of the process such as work planning and staff development are lost. Against this position is the argument that linking performance appraisal process to pay awards induces behaviours directed at improving ratings without necessarily improving performance. Inflation in ratings may be a by-product of such behaviours.

10.2. Implications of the study: The theoretical contribution

This thesis contributes to this debate in three perspectives:

- (a) By testing the generalisability of motivation theorems of AGREE through which we have a proposition of the ‘*environmental contingency*’ motivational approach to managing performance in PSOs;
- (b) By applying the PM model as a research analytical framework - the case of PRP schemes being one of the key dimensions of this model. Key issues addressed in applying the PM model relate to organisational aims and objectives; organisational strategic intent and the means to realising them; organisational effectiveness and efficiency; motivation and incentives; and the issue of performance information flows.
- (c) By extracting lessons relevant for local authorities in developing countries; and

The first and third perspectives are elaborated further in the next two subsections. The second perspective on the PM model has already been covered in the literature and methodology

chapters of this thesis.

10.2.1. The environmental contingency motivational approach

The concept of environmental contingency approach referred to here is not novel as it was part of the systems theory movements in the 1970s. The contribution of this thesis towards such approaches as result of this research is the perspective with which it should be looked at when considering various motivation options for public sector managers. Therefore we are arguing that as a prime purpose of all incentive schemes and reward systems is to enhance the motivation of individual employees, some consideration needs to be given to the differing contingency theories of employee motivation. The thesis concedes that motivation theory has a 'revised' role to play in improving the performance of public services. However, as a result of this research this role needs to be conceptualised in a different way from the traditional approaches of needs and behavioural or cognitive-based motivation theories. Each of these classical theories has its advocates and supporters, although all are subject to some conceptual uncertainties or question marks and in all cases some of the empirical evidence is not fully supportive.

Interviewees have consistently stressed informal sources of motivation which are not subscribed to by the mainstream theory of motivation. This entails that there exist alternative theories, which stress the key importance of *environmental contingencies*, whereas these five (the AGREE) are overwhelmingly driven by some internal psychological processes.

This new vision is a contemporary motivational approach to rewarding performance in a public sector environment and signifies the emergence of a new approach – which we shall refer to as an *environmental contingency-based theory of motivation*. This is due to the *volatility* of the nature of performance in a public sector environment. It is always a dilemma to whom public sector managers are really accountable for their performance – to the taxpayers or to the

central government. This may significantly influence their motivation indices because from what has been gathered in this study, the achievement of primary objectives is a fundamental source of motivation in an organisation.

Finally it is useful to consider some of the more recent general changes in compensation and reward systems that academics feel are or should be taking place in individual organisations. Kanter (1992), for example, points to a variety of economic, social and organisational pressures, which are gradually shifting the basis for pay from that of status to that of contribution. This change is indicated by the increased attention being given to merit pay, gain-sharing plans, pay for knowledge schemes and comparable worth issues. In contrast, however, it can be argued that new compensation-reward systems should increasingly address, not just the issue of *distributive justice*, but also the issue of *procedural justice*.

In the view of this study compensation-reward systems need to be (and are indeed slowly beginning to be) concerned with establishing consistent, accurate, ethical, representative and inclusive, ground rules for determining the size of employee rewards. In fact the concern for procedural justice has arisen as a result of increased product and service market competition limiting the ability of individual organisations to keep on providing ever-larger increases in wages.

10.2.2. Lessons

Generally, the lessons may be classified into five main categories as follows: (i) attributes of a successful PBI scheme; (ii) community involvement in decision-making processes; (iii) lessons about the PM model approach to improving public service quality; and (iv) lessons about performance measurement.

10.2.2.1. The attributes of a successful scheme

The research shows that a PRP scheme is generally perceived as contributing to an increase in performance of the organisation. However, it is important to identify well in advance the attributes of the scheme that will prevail in order to judge that it is effective. Perhaps as stated above, the achievement of the scheme's original objectives could be offered as a starting point. As demonstrated by the research the culture and values pertinent to individual organisations, the objectivity of the performance measurement processes, transparency and the perceived equity of the incentive scheme are all considered to be significant factors in the determination of the success of PRP schemes.

The importance of establishing a multi-skilled and flexible workforce is frequently stressed in the HRM literature. To this end, the role of reward and compensation systems are seen by most interviewees in this study to be particularly important in view of their potential for encouraging certain aspects of functional flexibility. Such aspects include multi-skilling (via pay for knowledge schemes) and team working (via group performance payments), while the very notion of financial flexibility pivots on the idea of contingent compensation systems in which individuals share in the rewards of overall organisational performance.

Finally, the major HRM demands are seeking to move from a 'workforce control' to a 'workforce commitment' approach. These demands include compensation policies involving individual pay being linked to skill attainment, gain-sharing and profit-sharing schemes and minimum status differentials in order to de-emphasize the hierarchy of organisational arrangements and practices.

10.2.2.2. Community involvement in local authorities decision-making processes

Greater emphasis on accountability and value for money services has demanded better financial management systems and more effective community involvement. They are far less focussed on understanding, measuring and managing the secondary objectives or means to do this. Although PM systems in this research are not fully integrated, there is sufficient evidence of public involvement in local decision making to ensure that primary objectives reflect community concerns. Other PSOs in the developing and transitional world (DTEs) can learn from the focus on community collaboration and consultation as found out in this research.

10.2.2.3. The PM model approach to improving public service quality

Various public sector reform initiatives are taking shape in all developing countries. Among other things, these countries are attempting to make local authorities and their staff much more accountable to councillors and people for their work and achievements. Hence, an important lesson for these countries is that better ways have to be found to define and measure the effectiveness of local governments and their managers. The PM model approach as applied in this research offers an invaluable ‘management solution’ to achieving this good course.

If local authorities and staff are to respond successfully to the enormous challenges which face them, they will need to take stock of everything that they presently do. One way of taking this strategic analysis (i.e. identify its current strengths, weaknesses, opportunities, risks and threats – the SWORT analysis) is to carry out a regular, careful and systematic audit of the work of the council as a whole. This should embrace not only what it is delivering to the public but also how it is functioning as an organisation – its climate, ethos, structural arrangements, management processes etc. This will enable the authority to come up with a viable mission statement.

Once the mission statement has been drawn up and agreed upon by all stakeholders, then the PM process can be applied as a '*conversion belt*' to ensure that departments and individuals act upon the council's strategic plan. In essence, the PM process will play and facilitate the allocative role of primary accountabilities to departments and individual jobholders. It will set up performance review processes and define how achievements are to be measured and recognised through rewards and sanctions. Above all the PM model will activate management information flows with a view to learning and thereby improving the quality of service delivery.

The main question now is that can local government systems world-wide benefit from this lesson and adopt a strategic approach to PM which provides for the long term organisational development of council organisations and the communities they serve? There are a number of strategic choices, which affect this outcome, as shown in this self-constructed Table 10.1 below.

Table 10.1: Strategic Choices in Local Government PM

Traditional Approach	Vs	PM model approach
Top-down Central Government and councillor imposed, control oriented performance measurement	vs	Strategic, collaborative development of a performance management system involving all stakeholders – process + environmental
Imposition of universal, industry wide measures with less validity for specific councils	vs	In-house development of valid, council specific measures to be used for organisational improvement and benchmarking with like councils
Periodic reporting for the purpose of meeting control requirements of senior management, councillors and Central Government	vs	Real-time, up-to-date performance information for all stakeholders to monitor progress, demonstrate accountability, manage and reward outcomes
Piecemeal, myopic approach with a focus on the measurement process	vs	Integrated PMS across the organisation focussed on BV for money, service delivery and organisational + individual improvement
Focus on financial measures only; and rigid seniority pay structures	Vs	Focus on both financial & non-financial measures: a results and determinants + balanced scorecard approaches; and flexible performance/skill based pay structures

10.2.2.4. Lessons about performance measurement and service quality in local government

As regards performance measurement an important lesson from this study is that what is measured is visible and important in organisations, and what is not measured becomes inevitably invisible. Consequently, these 'invisibilities' may be an impediment to the continued success of the organisation. Innovation and learning are invisible because they are not measured, but in local government performance, this is a dimension that is crucial in future viability.

A key to maintaining a sustainable service quality is to see quality as a negotiable concept, involving all key stakeholders, especially councillors the public (as consumers and citizens) and front-line staff. These are groups that have traditionally had 'quality' done to them, yet they are the keys to the success of any quality programme because they know what suffices their intrinsic needs better.

Important lessons for developing countries about quality services in local authorities, which adopt a corporate approach to managing performance are:

- (a) There is no single definition of quality - indeed, it is necessarily a negotiated concept. Trade-offs' have to be made to accommodate different interests and priorities, and to enable the local authority to work within the set legal, financial and policy framework;
- (b) There is no 'one way'. In fact there are many ways and any authority is likely to be using a mix of approaches, depending on the nature of the service and the nature of the problems it suffers from. Eclecticism and flexibility are vital, combined with a constructively critical approach to the transferability of techniques originally developed for other purposes (mainly manufacturing industry);
- (c) Quality is a local issue. National standards help set the parameters but essentially the definition of quality, and the way it is put into practice should reflect local conditions, needs and abilities;

- (d) Quality can flourish in an authority where work has already been done to develop a culture of trust and collaboration. Conversely, it does not flourish in a 'blame and fear' culture, which is generally hierarchical and divided departmentally and professionally;
- (e) Leadership from the top politically and from senior managers, is essential. It is vital for those delivering services to be confident that they will be supported through change, and that they will be supported and encouraged to try out new things. Leadership has not only to be visible, it also has to be sustained over a considerable period needed to develop quality as 'part of the furniture';
- (f) Seeing quality as a corporate priority enables and encourages parts of the organisation to try things out and to learn from the experience; and
- (g) A democratic approach to quality involving local people in developing and monitoring standards, making suggestions and giving feedback, debating priorities and needs is consistent with and helpful to the democratic nature of local government. A consultative and participative approach gives weight and credibility to a quality programme.

10.2.3. The Main Contribution: Contractualism: an organisational change implementation model

Traditionally, countries might have balanced between two management models. One model promotes a single (government-wide) management solution imposed across the board to ensure consistency and expediency in implementation. A second model lets managers manage within the generic framework allowing each government agency to choose its own reform tools and when and how to implement them. This second model has the benefit of maximising staff ownership of changes, but can result in a very patchy and inconsistent situation where some agencies are much more advanced or advantaged than others.

As a contribution to knowledge, this study argues that the current move towards 'contractualism' offers a third alternative we may refer to as 'an organisational change implementation' model. Sufficient analysis and operational framework mechanisms have to be put in place if agencies do not want to "reinvent the wheel" or make the same

mistakes as others who have tried these methods before them. The model one chooses has to be aligned with, among other things: the aims of a reform policy; the differences between the missions and "professional identities" of the agencies involved; the individual organisational values, cultures and capacities; the stakeholders' perceptions of equity; and the underlying legal framework.

There is no single model though applicable to all countries or even to all agencies within a single country. Hence, an important contribution to knowledge that arises from the proceedings of this study is that there is a need to develop a change-management strategy using a balanced, incremental and learning approach with the three management models in perspective. A market-type motivational devices such as PRP schemes should be adopted with vigilance because as demonstrated in this study they cannot turn an ineffective management into an effective one. Most importantly such schemes should be regarded as secondary level management tools rather than primary and should not be entirely relied upon to bring about the '*achievement culture*' attitude within an organisation. A conducive operating environment in the context of PM needs to be in existence prior to their installations. In particular institutional and organisational reform need to guarantee that the following ingredients are in place: transparent processes of recognition and rewarding individual contributions ; understanding and satisfying their intrinsic (rather than extrinsic) motivational desires; and a fair and equitable linkage of their performance to pay packages.

10.3. Direction for further research

By and large global information and communication technology (ICT) advancement, market forces and changes in the role of governments in the provision of public goods and services have necessitated the implementation of market-type managerial practices in PSOs. This implies that both primary and secondary objectives of PSOs today have changed.

They are more devolved and consumer-oriented and they need, not only different approaches to their attainment, but also new management accounting reporting skills. The frontiers of management accounting techniques such as Activity-Based Costing (ABC), Total Quality Management (TQM), cost of quality, Just-In-Time (JIT), Financial Management Initiative (FMI), Benchmarking, etc are just a few of such examples.

Therefore, further research called for about the response of management accounting information system to the 'new' information needs of public sector managers in response to current reform initiatives taking place. A revised set of management information is required for managing, evaluating, and rewarding individual performance under the new regime of public management. In order to achieve these objectives and earn a competitive edge, the focus of public sector managers now is on issues attributable to improving organisational performance. Does this trend imply that PSOs' planning, decision-making, and control processes of individual performance today need to be more informed than before the adoption NPM practices? If so, does it mean that management accounting information systems in PSOs now have a new role to play in facilitating effective management, measurement and rewarding processes of individual performance?

By disseminating enhanced management information as widely and frequently as possible an organisation is likely to be in a better position to modify employees' behaviour and build a stable intellectual tax base (capital) in the current turbulent political environment. So far inadequate attention has been paid to this area and how accounting systems should reinvigorate in response thereto. Therefore, the thesis concludes by proposing the 'new' role of management accounting system as a means of meeting 'information needs' of modern public sector managers as a potential area for further research.

Appendices

Appendix A: Topic Guide

1. What PSO capacity indicators are in place to accommodate market-type managerial changes?
2. Is rewarding performance a new managerial culture in PSOs?
3. What are the attributes of successful PBIs?
4. What motivates public sector managers?
5. Is the principle of linking pay to performance acceptable in a political institution like the local government?
6. What are the implications of Kaplan & Norton's model of 'Balanced Scorecard Approach' to measuring performance in a PSO?
7. What are the perceptions of stakeholders about equity of PRP schemes in the BLG system?
8. What are the PRP's effects on individual and organisation performance?
9. To what extent is PRP is perceived to be fair in a local authority environment?
10. What are the PRP's links with financial and performance management?
11. What lessons are out there for developing countries to learn from the experience of veteran advanced systems like the UK in the implementation of market-type PBIs in a public sector environment?
12. What is the theoretical and practical implication of research findings from this study?
13. What are the potential areas for further research after this study and what is the main proposition of the study?

Appendix B: Questionnaire Series 1 [sample]

Name of Public Sector Organisation: ...The XXX Council

Name of respondent: Position.....

Contact : Email address..... Telephone

Responses to this questionnaire will be solely used for the purpose of this study and will be treated with strictest confidence.

The completed questionnaire may be sent to me as an attachment through my email address: XXXXX

OR may be sent by post to the following address: John Isaac Mwita, University of

Birmingham, [address removed]

Please, unless requested otherwise, could you answer each question by placing a tick in the appropriate box []. NA = Not Applicable now.

- 1.Are corporate objectives formally linked to the council strategic plans? We are currently undertaking this.YES ...[]₁. NO ...[]₂. NA [X]₃
- 2.Do these strategies and plans indicate how the achievement of organisational objectives will be formally evaluated? Same as above.....YES ...[]₄. NO ...[]₅ NA ..[X]₆.
- 3.Are key objectives linked to specific group or individual tasks or accountabilities as way of enabling performance measurement?...same as above...YES ..[]₇. NO ...[]₈ NA [X]₉.
- 4.Does the council have a formal arrangement or scheme for performance management? ...
.....YES ...[]₁₀. NO ...[]₁₁ NA [X]₁₂.
- 5.If YES, will this scheme be retained in future?
.....YES ...[]₁₃. NO ...[]₁₄ NA [X]₁₅.
- 6.If NO, do you plan to introduce such a scheme in future?
.....YES ...[X]₁₆. NO []₁₇. NA. []₁₈.
- 7.Does the authority operate a Performance-Related Pay (PRP) scheme?.....YES ...[]₁₉. NO [X]₂₀. NA []₂₁.
- 8.If YES, will it be retained in future?.....
.....YES ...[]₂₂. NO []₂₃. NA []₂₄.
- 9.Are there any resistances within the council against the policy of rewarding performance through PRP?.....
.....YES []₂₅. NO.. []₂₆. NA .[X]₂₇.
10. If NO, does the authority have a plan to introduce such a scheme in the future? ...
.....YES ... []₂₈. NO.. []₂₉ NA []₃₀.
11. Does the authority operate an incentive scheme other than PRP for the employees?
..... YES ...[]₃₁. NO ...[X]₃₂. NA []₃₃.
12. Does the authority have a formal system of individual performance appraisal or measurement? Employee Review & Development Programme.....
.....YES ...[]₃₄. NO ...[X]₃₅. NA []₃₆
13. How important are the following for this council: Please tick [✓] against preferred rank between 0 and 5, where 0 = not applicable now, and 5 = very important

(a) Qualitative performance targets?₃₇

0	1	2	3	4	5
X					

(b) Quantitative performance targets?₃₈

0	1	2	3	4	5
		X			

(c) Performance measurement scheme?₃₉

0	1	2	3	4	5
		X			

(d) Rewarding individual performance?40

0	1	2	3	4	5
X					

(e) Performance-Related Pay scheme?41

0	1	2	3	4	5
X					

(f) Performance Management scheme?42

0	1	2	3	4	5
		X			

14. How have recent managerial reforms in the public sector affected your organisational culture of managing and rewarding performance? ⁴⁴ ...

Comments: It has given the Managers an opportunity to consider these issues within the overall Best Value process.

15. In your own assessment, what is your view about the effectiveness of performance pay schemes in the public sector? ⁴⁵.....

Comments: It will be very difficult to introduce due to the present culture of automatic pay raises. However, this may change under the Single Status Reviews.

Please CHECK this box if you would be willing to participate in a physical follow-up interview[]

END OF THE QUESTIONNAIRE

Thank you for your co-operation in completing the questionnaire

Appendix C: Questionnaire Series 2

Dear Sir/Madam

This is an academic research questionnaire that is intended to obtain the general perception of public sector managers/officers about the appropriateness and effectiveness of 'using market-oriented performance-based incentive schemes to motivate public sector employees'. Personal views rather than organisational are required and may not need such a scheme to be in operation in your organisation. All responses to this questionnaire will be used for the purpose of this study and will be treated with strictest confidence.

Please, send the completed questionnaire to the following address: John Isaac Mwita, University of Birmingham, [Address removed]

Name of Local Authority:

Position of Respondent..... Telephone.....

Contact: Email address.....

1.0 Acceptability of performance-based incentive schemes for public sector managers

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
1.1. The principle of relating pay to performance is essentially a good one					
1.2 A performance-based incentive scheme is a good idea for managerial staff					
1.3. The idea of performance-based incentive scheme is essentially unfair					
1.4 Working under performance contracting is a good policy in public sector					

Additional remarks, if any.

2.0 Pay as a Motivator

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
2.1 The most important thing about a job is pay					
2.2 The kind of work I like is the one that pays top salary for top performance					
2.3 I receive a considerable amount of feedback concerning the quality of output on my job.					

Additional remarks, if any.

3.0 Manager's view on the reasons for introducing an incentive scheme

Please ranked the following objectives of the any incentive scheme in your council between 1 and 8, where 1=highest and 8=lowest rank

<i>What is your organisation's main purpose of operating an incentive scheme?</i>	<i>Rank</i>
3.1 Reward good performance	
3.2 Remove the bargaining process away from trade unions	
3.3 Reinforce existing culture, values and performance expectations	
3.4 Promote organisational change	
3.5 Motivate employees	
3.6 Increase commitment to the organisation	
3.7 Improve recruitment and retention of staff	
3.8 Improve performance of the organisation	

Additional remarks, if any.

4.0 Success of an incentive scheme in the public sector

There are two statements, which are designed to determine the success of the scheme as perceived by the managers:

Statement 1: Performance based incentive scheme has been successful in achieving an overall increase in organisational performance in the local government system.

Statement 2: Performance based incentive scheme has provided the authority with a useful tool in the delivery of quality public services.

Additional remarks, if any.

	Statement 1	Statement 2
Strongly Disagree		
Disagree		
No View		
Agree		
Strongly Agree		

5.0 Incentive scheme's effect on performance (service delivery)

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
5.1 A performance based incentive scheme makes me focus on what I'm meant to achieve'					

5.2 A performance-based incentive scheme promotes improvement in organisational performance.					
5.3. An incentive scheme improves communication with the individual supervisor, the managers' immediate supervisor and an improvement in performance					
5.4. A performance-based incentive scheme helps managers to focus on certain objectives.					
5.5. A performance-based incentive scheme provides greater opportunity to interact on a more frequent basis with the supervisor for discussing the focus of direction of the targets set					

Additional remarks, if any.

.....

6. Drawbacks with performance-based incentive schemes

Please rank the following statements relating to a performance-based incentive scheme in your council according to their order of degree of drawback. Rank between 1 and 8, where 1=highest and 8=lowest rank

<i>Statement</i>	<i>Rank</i>
6.1. The amount of reward involved is not enough to substantiate a change in performance	
6.2. PRP negatively affects team spirit, and co-operation can be jeopardised	
6.3. Performance pay encourages employees to exercise a narrow focus on short-term quantifiable goals, neglecting long term issues	
6.4. Performance-based pay incentives are not successful in improving employee motivation	
6.5. It is principally unfair in discriminating between individual contributions	
6.6. Difficult to measure individual performance objectively	
6.7. Assumes that money is the best reward	

Additional remarks, if any.

.....

7.0 Measuring managerial performance for reward purposes

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
7.1 As a result of operating a performance-based incentive scheme, my work objectives are clear and specific. I know exactly what my job is.					
7.2 Feedback and feed-forward loops are most important aspects of a performance measurement scheme in local authorities					
7.3 The task of measuring managerial performance is a difficult one.					

7.4 The process of linking pay to performance is ambiguous and very subjective					
7.5 A number of mechanisms are possible to overcome difficulties in measuring managerial performance in a public sector environment					

Additional remarks, if any.

8.0. Short-term work objectives, performance targets and feedback

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
8.1. In practice, there is over-emphasis on short-term work objectives as a common difficulty with performance-based incentive schemes					
8.2. Targets may become irrelevant as a result of circumstances beyond the manager's direct control.					
8.3. I am provided with a great deal of feedback and guidance on the quality of my work					

Additional remarks, if any.

9.0. Links between performance and reward

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
9.1 Producing high quality work is rewarded with more pay					
9.2 Performance-based incentive scheme has no effect on my work performance					
9.3 The most important thing about a job is pay					

Additional remarks, if any.

10.0 Benefits of performance-based incentives in relation to team spirit

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
10.1. Performance-based incentives contribute to more effective teamwork					
10.2. Performance-based incentives negatively affect teamwork, and co-operation can suffer					
10.3. There is a need for an appeals system					

Additional remarks, if any.....

11.0. Joint Consultations in Goal/Objective Setting

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
11.1. I really have little voice in the formulation of my work objectives					
11.2. I am allowed a high degree of influence in the determination of my work objectives					

Additional remarks, if any.

12.0 Improvement in Performance

<i>What is your personal view on the following statements?</i>	<i>Strongly Agree</i>	<i>Agree</i>	<i>No View</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
12.1. With performance-based incentive scheme my individual efforts and achievements are recognised					
12.2. With performance-based incentive scheme my work objectives are clear and specific. I know exactly what my job is.					
12.3. With performance-based incentive scheme I can see how my work contributes to the organisation as a whole.					
12.4. With performance-based incentive scheme I have a clear idea about how the organisation is performing overall.					
12.5. I am generally told what is going on in the organisation					
12.6. I've got a clear idea of what this organisation's goals and plans are for the future.					
12.7. Performance-based incentive scheme has yet to overcome some difficulties in this organisation					
12.8. Increased communications with boss as a result of performance-based incentive scheme					
12.9. Performance-based incentive scheme makes me show more initiative					
12.10 Performance-based incentive scheme makes me focus on what I'm meant to achieve					
12.11. I have a clear idea of the council's goals and plans for the future					

Additional remarks, if any.

Please **CHECK** this box if you would be willing to participate in a physical follow-up interview []

END OF QUESTIONNAIRE, Thank you for

your co-operation

Appendix D: List of Respondents and Interviewees

The classification of respondents to Questionnaires and Interviews by title is as follows:

TITLE OF RESPONDENT:	Number of respondents to Questionnaire <u>I</u>	Number of respondents to Questionnaire <u>II</u>	Total respondents <u>I & II</u>	Number of respondents to <u>Interviews</u>
Chief Executive	11	46	57	7
Assistant Chief Executive	3	1	4	-
Executive Assistant of Chief	1		1	
Chief Officer, Performance		1	1	12
Organisation Development		1	1	1
Chief Officer – Organisational	1		1	
Town Clerk & Chief	1	3	4	-
Corporate Resources Manager	1		1	
Chief Executive & Chief	1		1	
Chief Administrative Officer		1	1	-
Chief Personnel Officer		1	1	1
CEO's Office Personnel and	1		1	
Acting Assistant Chief	1		1	
Head of Corporate Support	1		1	
Contract and Benefits		1	1	-
Corporate Head, Personnel &		1	1	1
Corporate Support Manager		1	1	-
Deputy Head of Human		1	1	1
Director of Personnel	1		1	
Director of Corporate Services	1	1	2	-
Director of Human Resources		1	1	3
Director of Strategy &	1		1	
Director of Policy and	1	2	3	5
Head of Administrative		1	1	1
Head of Corporate Policy		1	1	2
Head of County Human		1	1	-
Head of Human resources	2		2	
Head of Finance & Corporate	1		1	
Head of Corporate Human	1		1	
Head of Customer and Office		1	1	1
Head of Central Services	1		1	
Head of Personnel and	2	1	3	4
Assistant Head of Personnel	1		1	
Human Resource - Strategy			2	

Head of Personnel & Training	2		2	
Personnel Services Manager	4		4	
Personnel Officer	4	1	5	14
Personnel and Development	1		1	
Personnel Resources Advisor		1	1	1
Personnel Systems Officer	1		1	
Principal Policy Analyst		1	1	1
Policy and Administrative	1		1	
Management Services Officer	1		1	
Principal Personnel Officer	1		1	
Training Officer	1		1	
Total	52	70	122 (29%)	55

Letters of Regrets and Apologies

There were nine letters of regret and apologies from the following officers:

<u>Title of Manager</u>	<u>No.</u>
Chief Executive	5
Clerk & Chief Executive	1
Enterprise Support	1
Head of Human Resources	1
PA to Chief Executive	1
Total	9

List of Respondents and Interviewees by Names & Local authority

QUESTIONNAIRE SERIES I

[names removed from this web version]

QUESTIONNAIRE SERIES II [names removed from this web version]

LETTERS OF REGRETS AND APOLOGIES [names removed from this web version]

Appendix E: List of Skills and Attributes

	Skill/Attribute	High Rating	Low Rating
1.	Problem solving	Identifies problems and their causes quickly. Uses sound judgement to produce good solutions	Finds it difficult to see the problems clearly and produce solutions
2.	Quantity of work	High level of personal work output.	Produces limited quality of work.
3.	Quality and Control of work	Accurate, high quality of work; beats deadlines.	Poor quality work; Fails to meet deadlines.
4.	Planning and Organising	Clear sense of personal priorities; Good time management; Good project management.	Muddled and disorganised. Poor personal time discipline; Poor project management.
5.	Knowledge (Technical or Business)	Sound knowledge; Wide range of knowledge.	Limited, patchy knowledge.
6.	Initiative	Actively influences events; Keen to put forward ideas; self-motivating.	Passive attitude. Slow to think to new ideas. Also needs to be told.
7.	Flexibility/Adaptability	Able to adapt quickly to change; Able to adopt new approaches.	Inflexible; Resistant to change.
8.	Communication (Written)	Always concise, clear and to the point. Able to write in a structured way.	Badly expressed and presented.
9.	Communication (Oral)	Persuasive, clear presentation of ideas or facts.	Fails to get point across effectively.
10.	Relationships with Colleagues	Earns respect of colleagues and sensitive to their views and feelings	Not respected; Uneasy in working relationship; Poor customer service attitude.
11.	Relationship with Customers	Able to develop teamwork and maximise effectiveness. Strong motivator. Able to delegate.	Ineffective, uninspiring leadership. Does not develop sense of unity, purpose and effectiveness in team.
12.	Staff Management and Leadership	Smart, appropriate dress. Good timekeeping.	Slipshod, untidy approach to dress. Poor timekeeping.
13.	Personal Presentation and Timekeeping		

The summary of a list of 13 skills and attributes for appraising performance

Appendix F: Skills and Attributes Mark Sheet

Specimen of Staff Performance Appraisal – Skills and Attributes Mark Sheet in the Department of Education

Descriptive comments on the attributes (High and Low) and rating – values are explained in a separate document called '*Skills and Attributes: Explanatory Notes*'.

Appraisee Name: _____

Appraiser: _____

Dates covered by Appraisal: _____

Date of Appraisal: _____

Skills and Attribute		Rating Awarded (tick one box)				
		1	2	3	4	5
1.	Problem solving					
2.	Quantity of work					
3.	Quality and Control of work					
4.	Planning and Organising					
5.	Knowledge (Technical or Business)					
6.	Initiative					
7.	Flexibility/Adaptability					
8.	Communication (Written)					
9.	Communication (Oral)					
10.	Relationships with Colleagues					
11.	Relationship with Customers					
12.	Staff Management and Leadership					
13.	Personal Presentation and Time-keeping					

Appendix G: A checklist for evaluating and revising incentive pay systems

1. How should business goals link with the pay system?

- First decide what the business wants of its people, unit by unit and group by group.
- Communicate targets down through the organization.
- Make sure that messages about the business (e.g. quality, 'right first time', customer care) are reflected in the workings of the pay system.

2. What should the pay system seek to achieve?

- Would pay incentives increase motivation? Consider everyone, not just high-flyers or poor performers.
- How could the pay system help to improve recruitment and retention?
- What effect should the pay system have on quality and continuous improvement of products, services and processes?
- How might the pay system support the culture of the organization, and any desired cultural change?
- Does the pay system need to encourage co-operation and teamwork?
- How might the pay system encourage the acquisition and flexible use of skills?
- Are there alternative or complementary ways of achieving these objectives? Should use of the pay system be a fundamental part of the approach? What additional measures should be taken to reinforce the messages given by the pay system?

3. Who should be covered by incentive payments?

- Only those groups and individuals where there is a direct and quantifiable link between effort and output? Or more widely?
- How appropriate are individual incentives where team working is important?
- What sort of people does the organization currently employ, or want to employ in the future? Those who are largely motivated by money, or those who get their main motivation in other ways?

4. How much of pay should be at risk?

There is no final answer, but in designing a pay system it is worth thinking about:

- The need for motivation, group by group.
- The extent to which incentives can be strictly related to effort.
- Whether separate provision needs to be made to allow pay movements as market circumstances fluctuate.
- What the pay system is seeking to achieve. For example, the amount at risk may need to be relatively large if the aim is to motivate; smaller if it is to reward achievement.

5. How can incentive systems be made to work fairly and effectively?

- First make sure that performance management systems are effective.
- Ensure that personal objectives are fair and relevant to required performance.
- Broaden objectives if team working or interdepartmental co-operation is required.
- Ask employees and ask trade union representatives to get feedback on effectiveness and consistencies.
- Use attitude surveys and exit interviews to monitor employees' views. Don't just rely on managers' views.
- Don't forget to keep payments competitive in the external labour market.
- Be careful to treat men and women equally.
- Train managers to appraise properly and monitor markings to ensure consistency.
- Realize that introducing incentives is insufficient, on its own, to change culture and behaviour.

6. What about risks and problems?

- Don't risk demotivating the majority by implying that their work is unsatisfactory. Remember, most people think they are better than average. Most people will need to receive some performance payment.
- Consider whether personal appraisal and development can be separated from incentive pay to avoid undermining appraisal systems.
- Watch total costs (including the cost of monitoring) and control performance pay budgets.
- Relate objectives to criteria which avoid emphasizing short-term results at the expense of long-term success.

7. What mechanisms are there for review and evaluation?

- Is the board involved in the process?
- Continually monitor output measures, input costs, employee attitudes and management views in order to make improvements to the system.
- Circumstances change, so keep objectives under review during the year.
- Don't forget to reassess the pay system's contribution to overall business objectives.
- It is easy to say, 'Incentives work,' without knowing why!

Appendix H: The Analytical Framework

The research analytical framework is based on the argument that there are five interdependent dimensions that must be integrated for the PM model to function effectively. These are:

- (1) Corporate objectives which stipulate the purpose of existence, address community expectations, and incorporates cultural values and norms;
- (2) Strategic plans that address primary or corporate objectives by performing strategic analysis (SWORT analysis) and formulating training, development and retention policies;
- (3) Action Planning to address operational (secondary) objectives, specify key tasks & responsibilities, mapping or allocating resources, setting performance targets, and documenting performance contracts and agreements;
- (4) Performance recognition through objective performance measurement and accountability processes, rewards and sanctions, conducting training needs assessment (TNA); and
- (5) Management Accounting Information System - effective feedback and feedforward loops, timely availability of performance information-set for planning, decision-making and control, and effective use of suggestion boxes.

Appendix I: Introduction Letter to Chief Executives

Bibliography

- _____, 1985. Introduction to Payment Systems. London, ACAS, (Advisory Booklets, 2.)
- _____, 1990. Appraisal-related Pay. London. ACAS, (Advisory Booklets, 14.)
- _____, 1990. Developments in Payments Systems: the 1988 ACAS Survey, London, ACAS, (Occasional Papers, 45).
- _____, and WALSH, J. 1991. "Pay determination in Britain in the 1980s: the autonomy of decentralisation," *Oxford Review of Economic Policy*, Volume 7 no. 1 pages 44-59.
- _____, 1989. *Paying for Performance*, London, IDS, 1989 (Research Files, 9)
- _____. 1994. Columbia: Local Government Capacity Study: A conceptual Document (Draft). World Bank, Washington DC.
- _____, 1990. *Profit –Related Pay*, London. IDS 1990, (studies, 471)
- _____, 1992. *Performance Management in the UK: An analysis of Issues*, London: IPM.
- ABRAHAMSON, M. 1983. *Social Research Methods*. London: Prentice Hall,.
- ADAMS, J.S. 1965. "Inequality in social exchange", in Dixon, J. et al. (1998), "Managerialism - something old, something borrowed, little new: Economic prescription versus organisational change in public agencies", *International Journal of Public Sector Management*, Vol. 11, No. 2/3, pp.164-187.
- ADVISORY CONCILIATION AND ARBITRATION SERVICE, 1987. Labour Flexibility in Britain, London, ACAS, (ACAS Reports, 4.)
- ALDERFER, C.P. 1972. *Existence, Relatedness, and Growth*. New York: Free Press.
- ALLEN, F. 1996. *Gender & performance*. London: Routledge in association with the Open University,
- ALLPORT, 1954. *Handbook of social psychology*. London: Addison-Wesley.
- ALLPORT, F.H., 1960. *Theories of perception and the concept of structure : a review and critical*. London: Chapman & Hall.
- AMMONS, D.N. 1996. *Municipal Benchmarks: Assessing Local Performance and Establishing Community Standards*. London: SAGE.
- ANDERSON, G. & EVENDEN, R. 1992. *Management skills: making the most of people*. Wokingham Wesley.
- ANTHONY, P. D., 1990. "The paradox of the management of culture, or "he who leads is lost"". *Personnel Review*, Volume 19 Number 4, pages 3-8.
- ANTHONY, R.N., 1965. *Planning and control systems: a framework for analysis*. Boston : Harvard University.
- ARGYRIS, F.E. 1977. *Organizational dynamics – Leadership*. New York, N.Y.: AMACOM.
- ARMSTRONG, M and MURLIS, H 1991 & 1994. *Reward Management - A Handbook of remuneration Strategy and Practice*. London: Kogan Page ltd.
- ARMSTRONG, M. & MURLIS, H., 1991. *Reward Management: A hand book of Remuneration Stragey and Practice*, 2nd Edition. London, Kogan.
- ARMSTRONG, M. 1993. *Managing Reward Systems*. Great Britain: Open University Press.
- ARMSTRONG, M. 1999. *A Handbook of Human Resource Management Practice*. London: Kogan Page Ltd
- ARMSTRONG, M. and BARON, A. 1998. *Performance Management Handbook*, London: IPM.
- ARMSTRONG, M. and BARON, A., 1995. *Performance Management: The New Realities State*. Mutual Book & Periodical Service, Ltd.

- ARMSTRONG, M. and MURLIS, H. 1991. *Reward Management*: London: Kogan Page.
- ARMSTRONG, M. and MURLIS, H. 1994. *Handbook of Salary Administration*. Nichols Publishing Company.
- ARMSTRONG, M. S. 1993. *Human Resource Management: strategy and Action*. London: Kogan Page.
- ARNOLD, J. et al, 1995. *Work psychology: understanding human behaviour in the workplace* 2nd ed.. London: Pitman.
- ARTHUR, J.B. 1994 'Effects of Human Resource Systems on Manufacturing Performance and Turnover', *Academy of Management Journal*, 37: 670–87.
- ARWIDI, O. and SAMUELSON, L. A., 1993. "The development of budgetary control in Sweden-. Research note," *Management Accounting Research*, Vol. 4, pp. 93-107.
- ATKINSON, J. and MEAGER, N. 1986. "Is flexibility just a flash in the pan?" *Personnel Management*, Volume 18(9), pp. 26-29.
- ATKINSON, A. A. and MCCRINDELL J. Q. 1997. "Strategic Performance Measurement in Government," *CMA Magazine*, April pp 20 – 23
- ATKINSON, A. A. et al. 1997. "A Stakeholder Approach to Strategic Performance Measurement Sloan," *Management Review*, Spring, pp 25-37.
- ATKINSON, R. C. 1988. *Steven's Handbook of Experimental Psychology*. New York, NY: John Wiley.
- AUCOIN, P. 1990. "Administrative Reform in Public Management: Paradigms, Principles, Paradoxes and Pendulums in Governance," *International Journal of Policy and Administration*, Vol. 3, pp. 115-137.
- AUCOIN, P. 1995. *The New Public Management - Canada In Comparative Perspective*, Montreal: Institute for Research and Public Policy (IRPP).
- AUDIT COMMISSION 1995. *Management Handbook: Paying the Piper... Calling the Tune*, London: HMSO.
- AUDIT COMMISSION 1996. *Audit for Local Authorities and the National Health Service in England - Calling the tune: performance management in local government*. London: HMSO.
- AUDIT COMMISSION, 1995. *Paying the piper. People and pay management in Local Government*: London: HMSO.
- AUSTIN, R. D. and GITTELL, J. H. 1999. "Anomalies of High Performance: Refraining Economic and Organizational Theories of Performance Measurement," *Working Paper*. Harvard Business School.
- AYERS, H., 1995. *Perspectives on behaviour: a practical guide to effective interventions*. London: David Fulton.
- BAER, D. et al, 1968. "Some Current Dimensions of Applied Behaviour Analysis," *Journal of Applied Behaviour Analysis*, Vol. 20, No.4, pp. 103-5.
- BAGGOTT, R.1997. *Health and Health Care in Britain*. London: St. Martin's Press, Inc.
- BAINS' Report 1972. *The New Local Authorities, Management and structure*. London: HMSO.
- BALLANTINE, J. B. S. and MODELL S. 1998. "Performance measurement and management in public health services: a comparison of UK and Swedish practice," *Management Accounting Research*, Vol. 9, pp. 71-94.
- BANDURA, A. 1969. *Principles of Behaviour Modification*. New York: Holt-Rinehart & Winston.
- BANDURA, A. 1986. *Social Foundations of Thought and Action: A Social Cognitive Theory*, Englewood Cliffs, NJ: Prentice Hall.
- BANDURA, A. 1997. *Self Efficacy: The Exercise of Control*. New York: W. H. Freeman Company
- BANISTER, P. et al. 1994. *Qualitative Methods in Psychology: A Research Guide*. Milton Keynes: Open University Press.
- BARNEY, J. 1991. "Firm resources and sustained competitive advantage." *Journal of Management*, Volume 17: 99-120.
- BARNEY, J. 1995. "Looking inside for competitive advantage." *Academy of Management Executive*, Volume 9: 49-81.

- BARON, R. A.. 1986. *Behavior in organizations : understanding and managing the human side of workers*. 2nd ed.. London : Allyn and Bacon.
- BATLEY, R. 1996. "Public-private relationships and performance in service provision," *Urban Studies*, Vol. 33, No. 4/5, pp. 723-51.
- BATLEY, R..1997. "The Role of Government in Adjusting Economies." *ODA Research Programme on Sub-Saharan African and South Asia: Preface on Series of Papers*, DAG, University of Birmingham.
- BEAUMONT, P. B. 1993. *Human resource management : key concepts and skills*. London : Sage.
- BECKER, B. and GERHART, B. 1996 'The Impact of Human Resource Management on Organizational Performance. Progress and Prospects', *Academy of Management Journal*, 39(4): 779–801.
- BEER, M. 1985. *Human resource management : a general manager's perspective: text and cases*. London: Collier Macmillan.
- BEER, M., ET AL 1985. *Human Resource Management: A General Manager's Perspective*, New York: Free Press.
- BEER, M., et al., 1984. *Managing Human Assets*. New York, Free Press; London, Collier-Macmillan.
- BELLAMY, C. and Taylor, J. 1994. "Towards the information polity? Public administration in the information age," *Public Administration Journal*, Volume 72, No. 1. pp.122-129
- BERTALANFFY, Ludwig von, 1952. *General system theory : foundations, development, applications*. New York: G. Braziller.
- BEVAN, S. & THOMSON, M. 1991. "Performance Management at the cross-roads," *Personnel Management*, Volume 23 Number 11, pages 36-9.
- BEVAN, S. & THOMSON, M. 1992. *An Overview of Policy and practice in performance Management in the UK*. Wimbledon, IPM.
- BEVAN, S. & THOMSON, M. 1991. "Performance management at the crossroads", *Personnel Management*, 23(11), November 1991, pp 36-9
- BITITCI, U. et al. 1997. "Integrated performance measurement systems: an audit and development guide," *The TQM Magazine*, Vol. 9, No 1. pp.56-9
- BORINS, S. 1995. "The New Public Management is here to stay," *Canadian Public Administration*, Vol. 38, pp. 122-132.
- BOSTON, J. et al. 1996. *Public Management: The New Zealand Model*. Auckland: Oxford University Press.
- BRADBURN, N.M. and SUDMAN, S. 1979. *Improving Interview Method and Questionnaire Design*. London: Jossey – Bass Publishers.
- BRIERS, M. and HIRST, M. 1990. "The Role of Budgetary Information in Performance Evaluation," *Accounting Organizations and Society*, Vol. No. pp. 373-98.
- BROADBENT, A. J. 1995. *Management control : theories, issues and practices*; ed. London : Macmillan.
- BROMWICH, M., 1990. "The case for strategic management accounting: the role of accounting information for strategy in competitive markets," *Accounting, Organizations and Society*, Vol. No. 15.
- BROWN, A, 1995. *Organisational Culture*. London: Pitman Publishing.
- BROWN, W. 1962. *Piecowork Abandoned: the effects of Wage Incentive Systems on Managerial Authority*. London, Heinemann.
- BRUCE, N., 1995. *Research and change in urban community health*. Aldershot, Avebury.
- BULMER, M. (ed), 1977. *Sociological Research Methods: An Introduction*. London: Macmillan.
- BURGESS, R. 1982. *Field Research: A source book and Field Manual*. London: Allen & Unwin.
- BUTLER, J. E., FERRIS, G. R., & NAPIER, N. K. 1991. *Strategy and human resources management*. Cincinnati: South-Western.
- BUTLER, R., 1986. "The Evolution of the Civil Service," *Public Administration*, Vol. 71, pp.395-406.

- CACCIABUE, P.C. 1998. *Modelling and simulation of human behaviour in system control*. London: Springer.
- CAIDEN, G. 1994. "Globalizing the Theory and Practice of Public Administration." *Public Administration in the Global Village*, eds. Wesport, CT.: Praeger.
- CAMPBELL, A. et al., 1993. *A new agenda*. London: Institute for Public Policy Research.
- CAMPBELL, D. 1990. "The Forces of prejudice," *The Guardian*, October 31.
- CAMPBELL, P., 1996. *Analysing performance : a critical reader*. ed. Manchester: Manchester University Press, 1996. -
- CANNELL, M and WOOD, S. 1992. *Incentive Pay - Impact and Evolution*. London: Institute of Personnel Management.
- CARROL, S.T., 1982. *Management*, 2nd ed. - New York: Wiley.
- CASEY, B., et al. 1992. "Payment Systems: A Look at Current practice," *Research Series* no. 5. London: Department of Employment/Policy Studies Institute.
- CASEY, B., ET AL., 1991. "Payment systems: a look at current practice". *Employment Gazette*, August 1991, pp. 453-8
- CAULFIELD, I. & SCHULTZ, J. 1989. *Planning for Change in Strategic Planning in LG*. Essex : Longman.
- CBI/WRATT 1994. *Variable Pay Systems*. London: CBI.
- CHADWICK, C., & CAPPELLI, P. 1999. *Alternatives to generic strategy typologies in strategic human resource management*. In P. Wright, L. Dyer, J. Boudreau & G. Milkovich (Eds.), *Research in personnel and human resources management*, Supplement 4, *Strategic human resources management in the 21st century*: 11-29. Greenwich, CT: JAI Press.
- CHAPMAN, L. 1997. *From planning to action : government initiatives for improving school-level*. - Paris : Unesco International Institute for Educational Planning.
- CHECKLAND, P. 1981. *Systems thinking, systems practice*. Chichester: Wiley, J.
- CHECKLAND, P. and HOLWELL, S., 1998. *Information, Systems, and Information Systems*. Chichester: Wiley, J.
- CICOUREL, A. 1958. "The front and back of organizational leadership: A case study." *Pacific Sociological Review*, Volume 1: 54-58.
- CLARKE, J. and LANGAN, M. 1993. "The British Welfare state: foundation and modernization," in Cochrane, A. and Clarke, J. *Comparing Welfare State*. London: Sage in Association with the Open University.
- CLEVELAND, J. N., & MURPHY, K. R. 1992. *Analyzing performance appraisal as goal-directed behavior*. In G. R. Ferris (Ed.), *Research in personnel and human resources management*, vol. 10: 121-185. Greenwich, CT: JAI Press.
- CMND. 9508, 1983. *Financial Management in Government Departments*. London: HMSO.
- COATES, J.B., et al. 1992. *Management accounting : the challenge of technological innovation*. London : Chartered Institute of Management Accountants.
- COCHRANE, A., 1993. *Whatever happened to local government?* Buckingham : Open University Press.
- COHEN, E. 1941. *The Growth of the British Civil Service 1780-1939*. London: Frank Cass.
- COHEN, J.M. 1994. "Capacity Building in the Public Sector: A Focussed Framework for Analysis and Action." *International Review of Administrative Sciences*. Volume 62 No. 3, pp 407-422.
- COLLINGE, J. and LEACH, S. 1995. *The changing organisation and management of local government*. Basingstoke: Macmillan.
- CONFEDERATION OF BRITISH INDUSTRY, 1985. *Incentive Payments*, London, CBI.
- CORRIGAN, P. and JOYCE, P. 1997. "Reconstructing public management: A new responsibility for the public and a case study of local government," *International Journal of Public Sector Management*, Volume. 10, No 6. pp.76-79.

- COWEN, T. and ELLIG, J. 1993. *Koch Industries and market-based management*. Fairfax : George Mason University.
- COYLE-SHAPIO, and RICHARDSON, 1999. "Simulation by repeated optimisation," *Journal of the Operational Research Society*, Volume 50 ,pp. 429-438.
- CROSBY, PHILIP B. 1984. *Quality without tears : the art of hassle-free management*. London : McGraw-Hill.
- CROSBY, PHILIP B., 1996. *Quality without tears: the art of hassle-free management*. New York : New American Library.
- CROSSLEY, M. and GRAHAM, V. (ed), 1997. *Qualitative Educational Research in Developing Countries*. London: Garland Publishing, Inc.
- CROWE, D. 1992. 'A new approach to reward management' in ARMSTRONG, M (Ed) *Strategies For Human Resource Management*. London: Kogan Page.
- CUMING, M. W., 1993. *The Theory and Practice of Personnel Management*. Oxford/Boston: Clays Ltd.
- DANIELS, A.C., 1989. *Performance Management: Improving Quality Productivity through Positive Reinforcement*. Turker, Georgia: PM Publications.
- DAVIES, A. et al., 1993. "Management and Professional change in the UK public sector," *Paper presented at the 'Professions and Management in Britain' conference*, University of Stirling.
- DAY, P. and KLEIN, R. 1987. *Accountabilities: Five Public Services*, London: Tavistock.
- DE VAUS, D.A., 1993. *Surveys in Social Research*. London: UCL Press Ltd.,
- DELANEY, J., LEWIN, D., & ICHNIOWSKI, C. 1989. *Human resource policies and practices in American firms*. Washington: U.S. Government Printing Office.
- DELANEY, J.T. AND HUSELID, M.A. 1996. 'The Impact of Human Resource Management Practices on Perceptions of Organizational Performance', *Academy of Management Journal*, 39(4): 949-69.
- DELERY, J. and DOTY, D.H. 1996. 'Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency and Configurational Performance Predictions', *Academy of Management Journal*, 39(4): 802-35.
- DEMEYER, A., NAKANE, J., MILLER, J., & FERDOWS, K. 1989. "Flexibility: The next competitive battle." *Strategic Management Journal*, Volume 10: pp135-144.
- DEMING, W. 1986. *Out of Crisis: Quality, Productivity and Competition Position*. Cambridge: Cambridge University Press.,
- DENZIN, N. K. and LINCOLN, Y. S., 1994. *Introduction: Entering the field of Qualitative Research*. In: *Handbook of Qualitative Research*. (eds) Sage, Thousand Oaks.
- DEVANNA, C.J., ET AL, (1994) *Strategic human resource management*. New York, Chichester, Wiley.
- DIXON, J. et al. 1998. "Managerialism - something old, something borrowed, little new: Economic prescription versus organisational change in public agencies," *International Journal of Public Sector Management*, Vol. 11, No. 2/3, pp.164-187
- DONALDSON, M. 1992. *Human minds : an exploration*. Harmondsworth : Allen Lane.
- DOWLING and RICHARDSON 1997. *How managers motivate: the imperatives of supervision*. 2nd ed. London: McGraw-Hill.
- DRURY, C. 1998. *Management and Cost Accounting*, 4th edition. London: Chapman and Hall.
- DRYDEN, S. 1968. *Local Government in the Third World: Experience of Tropical Africa*, London: John Wiley.
- DULEBOHN, J. H., FERRIS, G. R., & STODD, J. T. 1995. *The history and evolution of human resource management*. In G. R. Ferris, S. D. Rosen, & D. T. Barnum. (Eds.), *Handbook of human resource management*: 18-41. Oxford, UK: Blackwell Publishers.
- DUNSIRE, A. 1995. "Administrative Theory In The 1980s: A Viewpoint," *Public Administration*, Vol. 73. pp. 17-40.

- DWYER, J. 1994. 'Performance pay: pain or gain?' *Works Management*, Volume 47, No. 6, pp. 16-18.
- DYER, L. 1985. "Strategic human resource management and planning." In K. M. Rowland & G. R. Ferris (Eds.), *Research in personnel and human resources management*, vol. 3: 1-30. Greenwich, CT: JAI Press.
- DYER, L. 1993. *Human resources as a source of competitive advantage*. Kingston, Ontario: Industrial Relations Centre Press, Queen's University.
- DYER, L. and REEVES, T. 1995. "Human resource strategies and firm performance: what do we know and where do we need to go?" *International Journal of Human Resources Management*, Volume 6: pp. 656-70
- DYER, L., & HOLDER, G. 1988. *A strategic perspective of human resource management*. In Dyer, L. (Ed.), *Human resource management: Evolving roles and responsibilities*: 1-46. Washington, DC: Bureau of National Affairs.
- EADIE, D. C. 1983. "Putting a Powerful Tool to Practical Use: The Application of Strategic Planning in the Public Sector," *Public Administration Review*, Volume 43, pp. 447-52.
- EDDISON, T., 1973. *Local government - management and corporate planning*, London: L. Hill.
- EDIS, M. 1995. *Performance Management and Appraisal in Health services*. London: Kegan Page Limited.
- ELCOCK, H. 1991. *Change and Decay*. London: Longman.
- ELCOCK, H. 1996. *Strategic Management*, in Farnham, D. and Horton, S. (eds), *Managing the New Public Services*. Second Edition, London: Macmillan.
- EMMANUEL, C. R. et al., 1990. *Accounting for management control*. 2nd ed. London : Chapman and Hall.
- FARMER, E. 1958. "Early days in industrial psychology: An autobiographical note." *Occupational Psychology*, 32: 264-267.
- FARNHAM, D and HORTON, S. 1996. *Managing People in Public Services*. Basingstoke: Macmillan,
- FARNHAM, D. 1993. "Human resources management and employees relations," in Farnham, D. and Horton, S. (eds) *Managing the New Public services*; Basingstoke Macmillan,.
- FARNHAM, D. and HORTON, S. (eds) 1998. *Managing the New Public Services*. Second Edition, London : Macmillan.
- FERGUSON, L. W. 1961. « The development of industrial psychology." In B. V. H. Gilmer (Ed.), *Industrial psychology*: 18-37. New York: McGraw-Hill.
- FERRIS, G. R., 1999, "Human resources management: some new directions," *Journal of Management*, Issue: May-June.
- FERRIS, G. R., & Judge, T. A. 1991. "Personnel/human resources management: A political influence perspective." *Journal of Management*, Volume 17: 447-488.
- FILELLA, J. and HEGEWISCH, A. 1994. "European experiments with pay and benefits policies." In BREWSTER, C. and HEGEWISCH, A. *Policy and Practice in European Human Resource Management*. London: Routledge. pp. 89-106.
- FISHER, C. 1989. "Current and recurrent challenges in HRM." *Journal of Management*, 15: 157-180.
- FITZGERALD, L. and MOON, P., 1996. *Performance Measurement in Service Industries: Making it Work*. London: CIMA.
- FLETCHER, C. and WILLIAMS, R. 1992. "The route to performance management," *Journal of Personnel Management*, Volume 24 Number 10, pp. 42-7.
- FLYNN, N. 1997. *Public Sector Management*, Third Edition, London: Prentice-Hall.
- FLYNN, N. and Talbot, C. 1996. "Strategy and Strategists in UK local government" *Journal of Management Development*, Vol. 15, No. 2, pp. 93-102.
- FOWLER, A. 1975. *Personnel Management in Local Government*. London: IPM.

- FOWLER, A., 1990. "Performance Management, the MBO of the '90s?" *Journal of Personnel Management*, July.
- FOWLER, A., 1995. *Human resource management in local government: its special purposes, conditions*. 2nd ed. London – in association with the Institute of Local Government Studies Pitman.
- FOWLER, F.J., 1993. *Survey Research Methods*. London: SAGE.
- GEARY, J. 1992. 'Pay control and commitment: linking appraisal and reward'. *Human Resource Management Journal*, Vol. 2, No. 4, pp. 36-54.
- GHOBIADIAN, A. and ASHWORTH, J. 1994. "Performance Measurement in Local Government - Concepts and Practice." *International Journal of Operations & Production Management*, Vol. 14. No. 5, pp. 35-51.
- GILL, J. & JOHNSON, P., 1997. *Research methods for managers*. - 2nd ed. London: Paul Chapman.
- GILMER, B. V. 1960. « Industrial psychology." In C. P. Stone & D. W. Taylor (Eds.), *Annual review of psychology*, vol. 11: 323-350. Stanford, CA: Annual Reviews, Inc.
- GOLDTHORPE, J.H. et al 1968. *The affluent worker : political attitudes and behaviour*. Cambridge : The University Press.
- GOLEMBIEWSKI, R. T. 1990. "Public Sector Organisation Behaviour and Theory: Perspectives on Nagging Problems and on Real Progress." In LYNN. N. B. et al. (eds), *Public Administration: The State of the Discipline*. Chatham, NJ: Chatham House Publishers.
- GOODSELL, C. 1990. *Emerging Issues in Public Administration*, in Lynn. N. B. et al. (eds), *Public Administration: The State of the Discipline*. Chatham, NJ: Chatham House Publishers.
- GORE, A. 1993. "The Gore Report on Reinventing Government. Creating a Government that Works Better and Costs Less," *Report of the National Performance Review*. New York Times Books.
- GRAY, A. et al., 1991. "The management of change in Whitehall: the experience of the FMI," *Public Administration*, Volume. 69, No. 1.
- GREENBERG, J. 1986. "Determinants of perceived fairness of performance evaluations," *Journal of Applied Psychology*, Vol. 71, pp. 340 - 342.
- GRIFFITH'S Report 1983. In Edis, M. 1995. *Performance Management and Appraisal in Health services*. London: Kegan Page Limited.
- GRIFFITHS, W. 1976. *Local Government Administration*. London: Shaw and son.
- GUEST, D. E., 1997, "Human resource management and performance: a review and research," *The International Journal of Human Resource Management*, Volume: 8 Number: 3 Page: p263 -- p276
- GUEST, D. E. 1987. 'Human Resource Management and Industrial Relations', *Journal of Management Studies*, 24: 503–21.
- GUEST, D. E. 1992 'Right Enough to Be Dangerously Wrong: An Analysis of the In Search of Excellence Phenomenon'. In Salaman, G. (ed.) *Human Resource Strategies*, London: Sage.
- GUEST, D.E. and Hoque, K. 1994. 'The Good, the Bad and the Ugly: Human Resource Management in New Non-union Establishments', *Human Resource Management Journal*, 5(1): 1–14.
- GULICK, L. and URWICK, L. (eds) 1937. *Papers on the Science of Administration*. New York: Institute of Public Administration.
- GUNNIGLE, P. et al., 1994. *Continuity and Change in Irish Employee Relations*. Dublin: Oak Tree Press.
- GUTHRIE, J. and ENGLISH, L. 1997. "Performance information and programme evaluation in the Australian public sector," *International Journal of Public Sector Management*, Vol. 10, No 3.
- HACKMAN, J. R. 1983. *Perspectives on behavior in organizations*. Ed. London : McGraw-Hill.
- HALL, L. 1987. *Personnel management : a new approach*. London : Prentice-Hall International.
- HAMMER, W.C, 1975. "How to ruin motivation with pay." *Compensation Review*, Vol. 7, No. 3, pp.17-27.
- HARLOW, E. and LAWLER, J. 2000. *Management, social work and change*. Eds. Aldershot : Ashgate.

- HARPER, S.C. 1992. The challenges facing CEOs: Past, present, and future. *Academy of Management Executive*, 6: 7-25.
- HARRELL-COOK, G. 1999. "Human resource systems, flexibility, and firm performance in turbulent environments." *Unpublished doctoral dissertation proposal, Institute of Labor and Industrial Relations*, University of Illinois at Urbana-Champaign.
- HARRELL-COOK, G., & FERRIS, G. R. 1997. "Competing pressures for human resource investment." *Human Resource Management Review*, volume 7, pp317-340.
- HARVEY, M. G. 1989. "Repatriation of corporate executives: An empirical study." *Journal of International Business Studies*, volume 20: 131-144.
- HARVEY, M. G. 1996. "Dual career couples: The selection dilemma in international relocations." *International Journal of Selection and Assessment*, 4: 4-22.
- HARVEY, M. G., & BUCKLEY, M. R. 1997. "Managing inpatriates: Building a global core competency." *Journal of World Business*, 32: 35-52.
- HAX, A. C. and MAJLUF, N. S. 1984. *Strategic Management: An Integrative Perspective*, Englewood Cliffs: Prentice-Hall.
- HEERY, E. 1998. "A Return to contract? Performance related pay in a public service," *Journal of Work Employment and Society*, Volume 12 Number 1 pp 73-95
- HENDRY, C. and PETTIGREW, A. (1990) 'Human Resource Management: an agenda for the 1990s', *International Journal of Human Resource Management*, 1(1): 17-43.
- HENEMAN, R.L, 1992. *Merit Pay - Linking Pay Increases to Performance Ratings*. New York: Addison-Wesley Publishing Co, Inc.
- HERZBERG, F. 1957. *One more time: How do you motivate employees?*.
- HERZBERG, F. 1996. *Work and the Nature of Man*. New York, NY: World Publishing Company.
- HERZBERG, F. et al, 1959. *The Motivation to Work*. New York : John Wiley & Sons.
- HERZBERG, F. et al. 1957. *The motivation to work*. 2nd ed. New York :.
- HERZBERG, F. et al. 1968. *Motivation to work*. 2nd ed. London : John Wiley
- HIBBETT, A., 1991. "Employment involvement: a recent survey", *Employment Gazette*, December 1991, pp 659-64.
- HITT, M. A. 1995. "Academic research in management/organizations - is it dead or alive?" *Journal of Management Inquiry*, Volume 4: 52-56.
- HODGETTS, Richard M., 2000. *International management : culture, strategy and behavior*. 4th ed. London : Irwin/McGraw-Hill.
- HOFFMAN, L. R., & MAIER, N. R. 1961. « Quality and acceptance of problem solutions by members of homogeneous and heterogeneous groups." *Journal of Abnormal and Social Psychology*, 62: 401-407.
- HOFSTEDE, G. 1991. *Cultures and organizations : software of the mind*. London : McGraw-Hill, 1991.
- HOLLOWAY, I., 1997. *Basic Concepts for Qualitative Research*. London : Backwell Science Ltd.
- HOOD, C. 1990. "Beyond the Public Bureaucracy State?" Public Administration in the 1990s. Inaugural Lecture," In FARNHAM, D and HORTON, S. 1996. *Managing People in Public Services*. Basingstoke: Macmillan.
- HOOD, C. 1991. "A Public Management for All Seasons?" *Public Administration*, Vol. 69, pp. 3-19.
- HOOD, C. 1995. "The New Public Management in the 1980s: variations on a theme", *Accounting, Organisations and Society*, Vol. 20. No. 2/3, pp. 93-110.
- HOOD, C. et al., 1998. *The art of the state : culture, rhetoric, and public management*. Oxford : Clarendon.
- HORGREN, C. T. et al 1997. *Cost Accounting - A Managerial Emphasis*, 9th edition, Englewoods Cliff: Prentice Hall.

- HORTON, S. and FARNHAM, D. 1999. *Public Management in Britain*, London: Macmillan Press Ltd.
- HOWARD, J. L., & FERRIS, G. R. 1996. "The employment interview context: Social and situational influences on interviewer decisions." *Journal of Applied Social Psychology*, Volume 26: 112-136.
- HUGHES, O. E. 1998. *Public Management & Administration: An Introduction*, London: Macmillan Press Ltd.
- HUGHES, O. E. 1999. *Public Sector Management*, Macmillan Press Ltd., London.
- HULL, F. L., et al. 1955. *Behaviour theory and social science*. New Haven: Yale University. Institute of Human Relations Press.
- HUSELID, M. 1995. "The impact of human resource management practices on turnover, productivity, and corporate financial performance." *Academy of Management Journal*, 38: 635-672.
- HUSELID, M., JACKSON, S., & SCHULER, R. 1997. "Technical and strategic human resource effectiveness as determinants of firm performance." *Academy of Management Journal*, volume 40: 171-188.
- HUSELID, M.A. and BECKER, B. 1995. 'High Performance Work Practices and the Performance of the Firm: The Mediating Effects of Capital Structure and Competitive Strategy', *Paper presented to the Academy of Management Conference*, Vancouver, 6-9 August.
- HUSELID, M.A., JACKSON, S.E. and SCHULER, R.S. 1995. 'The Significance of Human Resource Management Implementation Effectiveness for Corporate Financial Performance', *paper presented to the Academy of Management Conference*, Vancouver, 6-9 August. In press, *Academy of Management Journal*.
- ICHNIOWSKI, C., SHAW, K. and PRENNUSHI, G. 1994. 'The Effects of Human Resource Management Practices on Productivity', *working paper*, Columbia University.
- INVOLVEMENT AND PARTICIPATION ASSOCIATION, 1991. *How to introduce Performance-Related Pay*. London, IPA.
- ISAAC-HENRY, 1998. In FARNHAM, D. and HORTON, S. (eds). *Managing the New Public Services*. Second Edition, London : Macmillan.
- ISAAC-HENRY, K. 1993. *Management in the public sector : challenge and change*. London : Chapman & Hall.
- ISAAC-HENRY, K. et al. 1997. *Management in the Public Sector, Challenge and Change*, Second edition, London: International Thomson.
- JACKSON, S. E., & SCHULER, R. S. 1995. Understanding human resource management in the context of organizations and their environments. In J. T. Spence, J. M. Darley & D. J. Foss (Eds.), *Annual review of psychology*, vol. 46: 237-264. Palo Alto, CA: Annual reviews, Inc.
- JAQUES, E. 1993. *A General theory of bureaucracy*. Aldershot : Ashgate.
- JENNINGS, P. D. 1994. "Viewing macro HRM from without: Political and institutional perspectives." In G. R. Ferris (Ed.), *Research in personnel and human resources management*, vol. 12: 1-40. Greenwich, CT: JAI Press.
- JONES, B. M. 1996. *Financial management in the public sector*. - London : McGraw-Hill.
- JONES, C. S. 1996. *Management accounting information and organisational change in an NHS trust*. London : Chartered Institute of Management Accountants.
- JONES, R. and PENDLEBURY, M. 1996. *Public sector accounting*. 4th ed. - London : Pitman.
- JURAN, J., 1989. *Juran on Leadership for Quality*. New York: The Free Press, Macmillan.
- KANE, Robert. 1996. *The significance of free will*. Oxford : Oxford University Press.
- KANTER, R., 1990. *When Giants learn to dance*, London Unwin Hyman.
- KANTER, ROSABETH M. 1992. *The challenge of organizational change: how companies experience it and learn*. New York : Free Press.
- KANUNGO, R.N. & MENDONCA, M., 1996. "Issues in New Public Management," *International Journal of Manpower*, Vol.17, No. 4 -5, Page 65.

- KAPLAN, R. S. and NORTON, D. P. 1992. "The Balanced Scorecard: Measures that Drive Performance," *Harvard Business Review*, Jan-Feb, pp. 71-79.
- KAPLAN, R. S. and NORTON, D. P. 1996. "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review*, Jan-Feb pp 75 –85.
- KATZ, D., & KAHN, R. 1978. *The social psychology of organizations*. New York: John Wiley & Sons.
- KEEN, L. & SCASE, R. 1998. *Local Government Management: The rhetoric and reality of change*. Buckingham : Open University Press,
- KELLY, A. and MONKS, K., 1996. *Performance Related Pay: What Makes a Successful Scheme?*. Durban. BUP.
- KELLY, J. E. 1982. *Scientific management, job redesign and work performance*. London : Academic Press.
- KESSLER and PURCELL, 1992. *The Templeton Performance-Related Pay Project: Summary of Key Findings*. Oxford: Templeton College,
- KESSLER, I, 1994. "Performance pay." In SISSON, K (Ed) *Personnel Management In Britain: A Guide To Theory And Practice*. Oxford: Blackwell.
- KESSLER, I, 1995. "Reward systems," In STOREY, J. (Ed) *Human Resource Management - A Critical Text*. London: Routledge.
- KESSLER, I. and PURCELL, J. 1992. "Performance related pay: theory and practice," *Human Resource Management Journal*, 2 (3): 16--33.
- KICKERT, W. J. M., 1997. *Public Management Reform in Western Europe*. Cheltenham, UK: Edward Elgar.
- KINNIE, N. and LOWE, D. 1990. "Performance-Related Pay at the shopfloor," *Journal of Personnel Management*, November, Volume, 45 Issue Number.
- KLAY, W. E. 1989. "The Future of Strategic Management." In Rabin, J. et al (eds) *Handbook of Strategic Management*, New York and Basel : Marcel Dekker.
- KLEINBECK, U. et al, 1990. *Work motivation*. Ed. Hillsdale, N.J. : L. Erlbaum Associates.
- KLOOT L, et al 1997. *Management Accounting Systems and Organisational Learning in Victorian Local Government*, Melbourne: Australian Centre for Management Accounting Development.
- KLOOT, L. 1995. "Management Control Systems and Organisational Learning in a Changing Environment," *Unpublished PhD thesis*, Swinburne: University of Technology.
- KLOOT, L. and MARTIN, J. 1998. "Strategic Performance Management: A Balanced Approach to Performance Management issues in Local Government," Melbourne: Victoria University of Technology.
- KOCH, HUGH C. H. 1992. *Implementing and sustaining total quality management in health care*. Harlow : Longman, 1992.
- KOCHAN, T., KATZ, H. and MCKERSIE, R. 1986. *The Transformation of American Industrial Relations*, New York: Basic Books.
- KOTTER, J. P., 1982. *The general managers*. London; Collier Macmillan.
- KOVACH, K. A. 1987. "What motivates employees? Workers and supervisors give different answers," *Business Horizons*, Sept-Oct: 58--65.
- KRAMER, F. A. 1987. *Changing Public Bureaucracy: Values and Organization - Management Theories*, London: The Free Press.
- LABOUR RESEARCH DEPARTMENT, 1990. *Performance Appraisal and Merit Pay: a negotiators' Guide*. London LRD.
- LACSAB, 1987. "An Employers' Strategy?" *A Consultative Document*. November, LASCAB.
- LACSAB, 1988. "Summary of Replies received on the Consultative Exercise," In FARNHAM, D and HORTON, S. 1996. *Managing People in Public Services*. Basingstoke: Macmillan.
- LACSAB/LGTB, 1990. "Recruitment and Retention Survey 1989," *Report 4, Employment Strategies (APT&C Staffs), Use of Staff*. December, LASCAB.

- LANE, J. 1995. *The Public Sector: Concepts, Models and Approaches*, Second Edition, London: Sage.
- LANGFIELD, S. K. 1997. "Management Control Systems and Strategy: A Critical Review," *Accounting Organisations and Society*, pp. 207-232.
- LARBI, G., 1998. "Implementing New Public Management Reforms in Ghana: Institutional constraints and Capacity issues: cases from Public Health and Water Services," *Unpublished PhD thesis*, University of Birmingham.
- LAWLER and RHODE 1976. In PALMER, A. 1993. "Performance Measurement in Local Government," *Public Money and Management*, October-December, pp 31-36.
- LAWLER, E. E. III and HACKMAN, J.R. 1969. "Impact of employee participation in the development of incentive plans: a field experiment," *Journal of Applied Psychology*, Volume 53, pp. 467-471.
- LAWLER, E.E. (1986) *High Involvement Management*, San Francisco: Jossey-Bass.
- LAWLER, E.E. (1992) *The Ultimate Advantage*. San Francisco: Jossey-Bass.
- LAWLER, E.E. and HACKMAN, 1992. *The ultimate advantage : creating the high-involvement organization*. San Francisco, Calif. : Jossey-Bass.
- LAWLER, E.E., 1988. "Pay for performance: making it work," *Personnel*, October, 68-71.
- LAWLER, E.E., 1990. *Strategic Pay*. San Fransico: Jossey-Bass.
- LAZEAR, EDWARD P. 1998. *Personnel economics for managers*. Chichester : John Wiley.
- LECOMPTE, M.D. & PREISSE, J., 1993. *Ethnography and Qualitative Design in Educational Research*. 2nd edn. Chicago: Academic Press.
- LEGGE, K. 1995. *Human Resource Management Rhetoric and Realities*. London: Macmillan.
- LENDREM, D. 1986. *Modelling in behavioural ecology : an introductory text*. London : Croom Helm.
- LEGNICK-HALL, C. A., & LENGNICK-HALL, M. L. 1988. "Strategic human resource management: A review of the literature and a proposed typology." *Academy of Management Review*, 13: 454-470.
- LERNER, A. and WANAT, J. 1992. *Public Administration - A Realistic Reinterpretation of Contemporary Public Management*. Englewood Cliffs: Prentice Hall.
- LEVERING, R., MOSKOWITZ, M. and KATZ, M. 1984. *The 100 Best Companies to Work for in America*. Reading, Mass.: Addison-Wesley .
- LGMB, 1992. *Recruitment and Retention Survey*. Luton : LGMB.
- LGMB, 1993. "People and Performance: The LGMB Guide to Performance Management," London: Local Government Management Board
- LGMB, 1993a. *Pay in Local Government*. Luton: LGMB.
- LGMB, 1993b. *Equal Opportunities in Local Government*. Luton: LGMB.
- LGMB., 1998. "Local government management," Volume 1, WINTER, No. 23,
- LGTB, 1988. *Personnel: The Agenda for Change*. Luton: LGTB.
- LGTM/LACSAB 1990. *Case studies in PRP schemes in local authorities*. Luton : LGMB
- LOCKE, E.A. 1968. "Towards a Theory of Task Motivation and Incentives," *Organisational Behaviour and Human Performance*, Vol. 14, No.2, pp. 157-189.
- LOCKE, E.A. and LADHAM, G.P. 1990. *A Theory of Goal setting and Task Performance*, New York, NY: Prentice-Hall.
- LOCKE, E.A. and LATHAM, G.P. 1990. 'Work Motivation: The High Performance Cycle'. In Kleinbeck, U., Quast, H-H., Thierry, H. and Hacker, H. (eds) *Work Motivation*, Hillsdale, NJ: Lawrence Erlbaum.
- LONGMAN's Dictionary of Contemporary English, 1992. Longman Group, London.

- MABEY, C. and ILES, P. 1994. *Managing learning*. Eds. London : Routledge in association with the Open University.
- MABEY, C. and MAYON-White, B. 1993. *Managing change*. Eds. 2nd ed.. London : Paul Chapman.
- MABEY, C. and SALAMAN, G. 1995. *Strategic Human Resource Management*. Oxford: Blackwell.
- MABEY, C., SALAMAN, G., and STOREY, J. (eds.) 1998, *Strategic Human Resource Management (book review)*. A Reader 1998, London, Thousand Oaks and New Delhi: The Open University/Sage. 334 pages.
- MACDUFFIE, J., & Krafcik, J. 1992. Integrating technology and human resources for high-performance manufacturing. In T. Kochan & M. Useem (Eds), *Transforming organizations*: 210-226. New York: Oxford University Press.
- MACDUFFIE, J.P. 1995. 'Human Resource Bundles and Manufacturing Performance: Flexible Production Systems in the World Auto Industry ', *Industrial Relations and Labor Review*, 48: 197–221.
- MAHONEY, T. A., & DECKOP, J. R. 1986. Evolution of concept and practice in personnel administration/human resource management (PA/HRM). *Journal of Management*, 12: 223-241.
- MALLYA, N.J. 1997. "A paper presented at a Personnel Management Course for Local Authorities," *Personnel Officers Held at the Training Centre for Development Cooperation*, Usa River, Arusha, Tanzania.
- MARSDEN and FRENCH 1998. "Cases of performance-related-pay schemes in public sector organisations in Britain." Unpublished reports via the Internet.
- MARSDEN, D and RICHARDSON, R., 1994. "Performing for pay? the effects of "merit pay" on motivation in a public sector?" *British Journal of Industrial Relations*, Volume. 33, No. 2, pp.243-261.
- MARSDEN, D. & RICHARDSON, R. 1994a. *Does Performance Pay motivate?* London: London School of Economics.
- MARSDEN, D. and RICHARDSON, R. 1991. *Does Performance Pay motivate?* A study of Inland Revenue Staff, London, Inland Revenue Staff Federation.
- MARTIN, J. 1999. "Leadership in Local Government Reform: Strategic Direction versus Administrative Compliance", *Australian Journal of Public Administration*. Vol.3 pp. 123-127.
- MASLOWS, A. H. 1954. *Motivation and personality*. New York : Harper.
- MASLOWS, A.H. 1970. *Motivation and Personality*. New York, NY: Harper and Row.
- MASON, B. AND TERRY, M., 1990. "Trends in incentive payments systems: into the 1990s". Glasgow, University of Strathclyde, Department of Organisation, Management and Employment Relations, *Discussion Papers*, 2.
- MASSEY, A., 1993. *Managing the Public Sector*, Aldershot: Edward Elgar.
- MAUD, SIR JOHN, 1967. "Management of Local Government," *Local Government Administration in England and Wales*. Volume 5; London: HMSO.
- MAX, J.A.O., 1991. *The Development of Local Government in Tanzania*. Dar es Salaam, Tanzania: Educational Publishers.
- MAXWELL, J.A., 1992. "Understanding and Validity in Qualitative Research," *Harvard Educational Review*, No.62, pp. 279 - 300.
- MAXWELL, J.A., 1996. *Qualitative Research Design: An Interactive Approach*. Thousand Oaks: Sage.
- MAY, R.B. et al., 1990. *Application of Statistics in Behavioural Research*. New York: Harper & Row,
- MAY, T. 1993. *Social Research: Issues, Methods and Process*. Buckingham: Open University Press,
- MAYO, E. 1930. *The human problems of an industrial civilization*. New York : Macmillan.
- MAYO, HENRY B. 1960. *Introduction to Marxist theory*. New York : Oxford University Press.
- MAYO-SMITH, I. 1986. *Achieving improved performance in public organizations : a guide for manager*. West Hartford, Conn. : Kumarian Press.
- MCCLELLAND, P. C. 1975. *Causal explanation and model building in history, economics and the new*

economy. Ithaca; London : Cornell University Press.

- MCCLELLAND, P.C. 1961. *The Achieving Society*, New York, NY: Van Nostrand Reinhold.
- MCCOURT, W. And MINOGUE, M., 2001. *The Internationalization of Public Management: Reinventing the Third World State* (New Horizons in Public Policy series). Eds. Edward Elgar Pub
- MCGREGOR, D. 1960. *The Human Side of Enterprise*, New York: McGraw-Hill.
- MCGREGOR, DOUGLAS. 1960. *The human side of enterprise*. London : McGraw-Hill.
- MENIFF, J. 1994. *Action Research: Principles and Practice*. London: Macmillan Ltd.
- MENDONCA, M., & KANUNGO, R. 1994. "Managing human resources: The issue of cultural fit." *Journal of Management Inquiry*, 3: 189-205.
- MERCHANT, K. 1998. *Modern management control systems: text and cases*. Upper Saddle River, N.J.: Prentice Hall.
- MERCHANT, K. A. and MANZONI, G. 1989. *Rewarding Results: Motivating Profit Centre Managers*. Boston: Harvard Business School Press.
- MERRIAM, S. J., 1988. *Case Study Research in Education*. San Francisco: Jossey Bass.
- METCALF, L. and RICHARDS, S., 1990. *Improving Public Management*. London: SAGE.
- MILAKOVICH, M. E. 1991. "Total Quality Management in the Public Sector," *National Productivity Review*, Vol. 10, pp. 195-213.
- MILES, R. and SNOW, C. 1984. 'Designing Strategic Human Resource Systems', *Organizational Dynamics*, Summer: 36-52.
- MILES, R., & SNOW, C. 1978. *Organizational strategy, structure and process*. New York: McGraw-Hill.
- MILKOVICH, G. T. 1988. "A strategic perspective on compensation management." In G. R. Ferris & K. M. Rowland (Eds.), *Research in personnel and human resources management*, vol. 6: 263-288. Greenwich, CT: JAI Press.
- MILKOVICH, G. T. and NEWMAN, J. M. 1996. *Compensation*. 5th ed. Chicago: Irwin.
- MILLIMAN, J., VON GLINOW, M. A., & NATHAN, M. 1991. "Organizational life cycles and strategic international human resource management in multinational companies: Implications for congruence theory." *Academy of Management Review*, 16: 318-339.
- MINTZBERG, H. 1983. *Power in and around organizations*. Englewood Cliffs, NJ: Prentice-Hall.
- MINTZBERG, H. 1994. *The rise and fall of strategic planning*. London : Prentice-Hall.
- MITCHELL, F. 1994. "A commentary on the applications of activity-based management," *Management Accounting Research*, Vol. 5, pp. 261-71.
- MOHRMAN, ALLAN M.. 1989. *Designing performance appraisal systems : aligning appraisals and organization*. London : Jossey-Bass.
- MOORE, M. H. 1995. *Creating Public Value - Strategic Management in Government*. London: Harvard University Press.
- MOWDAY, R.T., Porter, L.W. and Steers, R.M. 1982. *Employee-Organization Linkages: The Psychology of Commitment, Absenteeism and Turnover*, New York: Academic Press.
- MUID, C. 1997. Information Systems and the New Public Management – A view from the centre," *Public Administration*, No. 72.
- MULHINS, L. 1996. *Management and Organisational Behaviour*. Fourth Edition. London : Pitman.
- MURPHY, Kevin, and CLEVELAND, J., 1995. *Understanding Performance Appraisal*. Beverly Hills, CA: Sage.
- MURPHY, T, 1989. "Pay for performance - an instrument of strategy," *Long Range Planning*, Volume 32, No. 4, pp.40-45.
- MURRAY, R., 1989. "Fordism and post-Fordism," in Farnham, D and Horton, S. 1996. *Managing*

People in Public Services. Basingstoke: Macmillan.

- MWITA, J. I. 2000. "Performance Management Model: A systems-based approach to public service quality," *The International Journal of Public Sector Management*. Volume 13 Number 1, pp 19-38.
- NAHT 1991. *Performance Management Guide*. West Sussex: National Association of Head Teachers.
- NAPIER, N. K., TIBAU, J., JANSSENS, M., & PILENZO, R. C. 1995. *Juggling on a high wire: The role of the international human resources manager*. In G. R. Ferris, S. D. Rosen & D. T. Barnum. (Eds.), *Handbook of human resource management*: 217-242. Oxford, UK: Blackwell Publishers.
- NAYLOR, J. C. and PRITCHARD, R. D. 1980. *A theory of behavior in organizations*. London : Academic Press.
- NEALE, F. (ED), 1991. *The Handbook of Performance Management*, London, IPM.
- NOREEN, E. 1991. "Conditions under which activity-based cost systems provide relevant costs," *Journal of Management Accounting Research*, Vol. 3, pp. 159-168.
- NUN, P. C. and BACKOFF, R. W. 1992. *Strategic Management of Public and Third Sector Organisations, A Handbook for Leaders*, San Francisco: Jossey-Bass.
- NUNBERG, B. 1995. "Managing the Civil Service, Reform Lessons from Advanced Industrialised Countries," *World Bank Discussion Paper*. Washington, DC: The World Bank.
- NYERERE, J. K., 1973. *Decentralisation*. DSM, Tanzania: National Printing Company.
- O'HANLON, J. and PEASNEL, N. 2000. "Incentive Compensation and Human Capital Assets." *A paper presented at the EAA 2000 Annual Congress held in Munich in March 2000*
- OAKLAND, J. S. 1989. *Total quality management*. Bedford : IFS.
- OECD 1987. *Administration as Service, The Public as Client*. Paris: OECD.
- OECD 1990. *Survey of Public Management Developments, Public Management Committee (PUMA)*, Paris: OECD.
- OECD 1991. "Serving the Economy Better," *Occasional Papers on Public Management*, Paris: OECD.
- OECD 1992. "Public Management Development Survey 1990," *OECD*, Paris.
- OECD 1993. "Private Pay for Public Work: Performance-Related Pay for public sector managers," *OECD*, Paris
- OECD 1993a. "Regulatory Management and Reform: Current Concerns in OECD Countries, Public Management Occasional Papers, Regulatory Management and Reform Series No. 1, OECD, Paris.
- OECD 1995. "Governance In Transition, Public Management Reforms," OECD, Paris.
- OECD 1997. "In Search of Results: Performance Management Practices," No.67, OECD, Paris.
- OECD, 1998. 'Public Management Reform and Economic Development,' OECD, Paris.
- OPPENHEIM, A. M., 1995. *Questionnaire Design, Interviewing and Attitude Measurement* London: Pinter.
- OSBORNE, D. and Gaebler, T. 1993. *Reinventing Government - How the Entrepreneurial Spirit Is Transforming the Public Sector*, New York: Penguin.
- OSTERMAN, P. 1994. "How common is workplace transformation and who adopts it?" *Industrial and Labor Relations Review*, 47: 173-188.
- OTLEY, D. .1999. "Performance Management: a framework for management control systems research," *Management Accounting Research*, Vol. 10, pp. 363-82.
- OTLEY, D. T. 1994. "Management Control in Contemporary Organizations: Towards a Wider Perspective," *Management Accounting Research*. Vol. 5, pp. 289-299.
- OTLEY, D. T. and Berry, A. J. 1980. "Control, Organisation and Accounting," *Accounting Organizations and Society*, Vol. pp. 231-44.
- OTLEY, D. T. and Berry, A. J. 1994. "Case Study Research in Management Accounting and Control," *Management Accounting Research*, Vol. 5, pp. 45-65.

- PAINTER, C. 1994. *Appointed agencies and public accountability : proactive strategies for local authorities*. Birmingham : WMJC.
- PALMER, A. 1993. "Performance Measurement in Local Government," *Public Money and Management*, October-December, pp 31-36.
- PAYNE, G.C.F. & Cuff, E. C., 1982. *Doing Teaching*. London: Batsford.
- PEIL, M., 1982. *Social Science Research Methods: An African Handbook*. London: Hodder & Stoughton.
- PERRY, Chad, 2000. <http://www.literaticlub.co.uk>
- PETERS, R.B. and Prasad, S.B., 1994. *Advances in international comparative management*. Eds. JAI Press.
- PETTIGREW, et al., 1992. *Shaping strategic change : making change in large organizations*. London : Sage Publications.
- PFEFFER, J. 1989. "A political perspective on career: Interests, networks, and environments." In M. G. Arthur, D. T. Hall & B. S. Lawrence (Eds.), *Handbook of career theory*: 380-396. New York: Cambridge University Press.
- PFEFFER, J. 1994. *Competitive Advantage Through People*, Boston, Mass.: Harvard Business School Press.
- PFEFFER, J. 1994. *Competitive advantage through people: Unleashing the power of the workforce*. Boston: Harvard Business School Press.
- PFEFFER, J. 1995. 'Producing Sustainable Competitive Advantage through Effective Management of People', *Academy of Management Executive*, Volume 9 issue (1): 55-69.
- PFEFFER, J. 1998. *The human equation : building profits by putting people first*. Boston, Mass. : Harvard Business School.
- PHILLIP, E.M. and PUGH, D.S. 1994. *How to get a PhD: A handbook for students and their supervisors*. Buckingham, Open University Press.
- PHILPOTT, L and SHEPPARD, L., 1992. "Managing for improved performance." In ARMSTRONG, M (Ed) *Strategies For Human Resource Management*. London: Kogan Page.
- PILBEAM, K. 1998. *International finance*. 2nd ed.. London : Macmillan.
- PLATT, J., 1983. "The Development of Participant Method in Sociology: origin, myth and history," *Journal of the History of the Behavioural Sciences*. Vol.36. No.3. pp.448-66.
- PLEVEL, M., Lane, F., Schuler, R., & Nellis, S. 1995. "Business strategy and human resource management: A profile of AT&T global business communication systems." In G. R. Ferris, S. D. Rosen & D. T. Barnum, D. (Eds.), *Handbook of human resource management*: 42-65. Oxford, UK: Blackwell Publishers.
- POLLITT, C. 1990. *Managerialism and the Public Services: The Anglo-American Experience* Oxford: Basil Blackwell.
- POLLITT, C. 1993. *Managerialism and the Public Services: Cuts or Cultural Change in the 1990s*. Oxford: Basil Blackwell.
- POLLITT, C. 1995. *Quality improvement in European public services : concepts, cases and commentaries*. London : Sage.
- POLLITT, C. 1996. "Antistatist Reforms and New Administrative Directions: Public Administration in the United Kingdom," *Public Administration Review*, Vol. 56, 2, pp. 81-7.
- PORTER, L. W. and Lawler, E. E. III, 1984. *Behavior in organizations*. London : McGraw-Hill.
- PORTER, M. E. 1980. *Competitive strategy*. New York: Free Press.
- PORTER, M.E. 1990. *Competitive Strategy*, New York: Free Press.
- PREECE, R. 1994. *Starting Research: An introduction to Academic research and Dissertation writing*. London: Pinter.
- PROCTER, S.J. et al., 1993. "Performance related pay in operation: a case study from the electronics industry." *Human Resource Management Journal*, Vol.3, No.4, pp.60-74.

- PUBLIC MANAGEMENT SERVICE, 1997. "Organisation of PUMA's Work on Performance Management," Paris : PUMA.
- RAINEY, H. G. 1990. *Public Management: Recent Developments and Current Prospects*, Chatham, NJ.: Chatham House Publishers.
- REDDITCH Borough Council, 1994. "Performance Management Scheme," *Advise notes for Managers and Employees*. Redditch : Human Resources Unit.
- RIBBENS, G. F. 1988. "Personnel managers as social engineers: harmonisation and new technology," *Personnel Review*, 30 (5): 27--33.
- RICHARDS, P. G., 1987. *The local government system*. London : Allen & Unwin.
- RIGGS, F. 1991. "Public Administration: A Comparativist Framework," *Public Administration Review*, Vol. 51, No. 6, pp. 473-7.
- RILEY, E. 1992. *Motivating and Rewarding Employees: Some aspects of Theory and Practice*, London : ACAS.
- ROBINSON, S. 1992. "The trouble with PRP," *Human Resources*, Spring, 66-70.
- ROGERS, C. 1936. *A social psychology of schooling: the expectancy process*, London: Routledge & Kegan Paul.
- ROGERS, S. 1990. *Performance management in local government*. Harlow : Longmans.
- ROGERS, S. 1994. *Performance Management in Local Government*. Essex : Longmans.
- ROSSI, P. H., et al, (ed) 1983. *Handbook of Survey Research*. London : Academic Press Inc.
- RUBERY, J. 1995. *Employer strategy and the labour market*. Oxford : Oxford University Press.
- RUBIN, H. R. & Rubin, I.S., 1995. *Qualitative Interviewing*. Thousand Oaks : SAGE.
- RUGUMYAMHETO, J. 2000. "Paper presented at the inaugural ceremony of the Launch of Public Service Reform Programme by the Permanent Secretary, President's Office, Civil Service Department on 20/6/2000," Sheraton Hotel, Dar es Salaam, Tanzania
- SALAMON, G and MABEY, C., 1995. *Strategic Human Resource Management*. Cambridge, Mass.: Blackwell.
- SANDELOWSKI, M. 1995. "Sample Size in Qualitative Research," *Research in Nursing and Health*. Vol. 18, pp. 179-83.
- SANDERSON, I. 1992. *Management of quality in local government*. Harlow : Longmans.
- SAPONARA, M. J., 1995. "Mauritania: Improving the Management of Public Resources- Innovative Approaches," J9-123, Washington DC : World Bank.
- SAPSFORD, R. and Jupp, V., 1996. *Data Collection and Analysis*. London: Sage.
- SAUNDERS, P. and Klau, F. 1985. "The Role of the Public Sector," *OECD Economic Studies*, No. 4, Paris: OECD.
- SAYER, A., 1992. *Method in Social Science: A Realistic Approach*. London: Routledge.
- SCAPENS, R and Roberts J. 1993. "Accounting and control: a case study of resistance to accounting change", *Management Accounting Research*, Vol. 4, pp 1-32.
- SCHEFFLEN, K. C., and others, 1971. "Long term impact of employee participation in the development of pay incentive plans: a field experiment revisited." *Journal of Applied Psychology*, 55: 182--186.
- SCHOFIELD, J. W. 1993. *Increasing the Generalisability of Qualitative Research. In: Educational Research: Current Issues*. London: Paul Chapman.
- SCHULER, R. S. 1989. "Strategic human resource management and industrial relations." *Human Relations*, Volume 42: 157-184.
- SCHULER, R., & JACKSON, S. 1987. "Linking competitive strategies and human resource management practices." *Academy of Management Executive*, volume 1: 202-219.
- SCHULER, R. S. AND JACKSON, S.E. 1987. 'Linking Competitive Strategies with Human Resource Management Practices', *Academy of Management Executive*, 1(3): 209-13.

- SHARP, J. A. & Howard, K., 1996. *The Management of a student research project*. Aldershot: Gower.
- SHARTLE, C. L. 1950. "Industrial psychology." In C. P. Stone & D. W. Taylor (Eds.), *Annual review of psychology*, vol. 1: 151-172. Stanford, CA: Annual Reviews, Inc.
- SHILLINGLAW, G. 1994. "Managerial cost accounting: present and future," *Journal of Management Accounting Research*, Vol. 1, pp. 33-46.
- SIMON, H. A. 1976. *Administrative Behaviour - A Study of Decision-making in Administrative Organization*. New York : The Free Press.
- SIMPSON, E. F. 1994. *The Developing World*. London : Longmans.
- SINCLAIR, A. 1995. "The Chameleon of Accountability: Forms and Discourses," *Accounting, Organisations and Society*, Vol. 20, No. 2/3, pp. 219-37.
- SIVASUBRAMANIAM, N. AND KROECK, K.G. 1995. 'The Concept of 'Fit' in Strategic Human Resource Management ', *paper presented to the Academy of Management Conference* , Vancouver, 6-9 August.
- SKELCHER, C. 1992. *Managing for service quality*. Harlow : Longman.
- SKIDMORE, S. 1994. *Introducing systems analysis*. Manchester. NCC-Blackwell.
- SKINNER, B.F. 1969. *Contingencies for Reinforcement*. New York, NY : Appleton-Century-Crofts.
- SKINNER, B.F. 1974. *About behaviourism*. London : Jonathan Cape.
- SLATER, H. et al, 1998. "Concepts of Private sector management for Public Administrators," (*Unpublished Report to ADB*), University of Birmingham.
- SMITH, DAVID G. 1992. *Paying for medicare: the politics of reform*. New York : A. de Gruyter.
- SMITH, E.A. 1992. Reform or revolution?: a diary of reform in England, 1830-32. Stroud: Alan Sutton.
- SMITH, I. 1992 "Reward management and HRM," In BLYTON, P. and TURNBULL, P. *Reassessing Human Resource Management*. London: Sage. pp. 169--184.
- SMITH, I.G., 1991. *Incentive Schemes: People and Profits*, second edition, Kingston upon Thames, Croner.
- SNELL, S. A. YOUNDT, M. A., & WRIGHT, P. M. 1996. "Establishing a framework for research in strategic human resource management: Merging resource theory and organizational learning." In G. R. Ferris (Ed.), *Research in personnel and human resources management* Volume 14: 61-90. Greenwich, CT: JAI Press.
- SPANN, R. N. 1981. "Fashions and fantasies in public administration," *Australian Journal of Public Administration*, Vol. 40, pp. 12-25.
- STACEY, M., 1969. *Methods of Social Research*. Oxford : Pergamon.
- STAKE, R.E., 1995. *The art of case study research*. London : Sage - Thousand Oaks.
- STAW, B. (1986) 'Organizational Psychology and the Pursuit of the Happy/Productive Worker', *California Management Review*, 18(4): 40-53.
- STEWART, J. and STOKER, G., 1995. *Local government in the 1990s*. London : Macmillan.
- STEWART, J. and WALSH, K. 1992. "Change In The Management Of Public Services," *Public Administration*, Vol. 70, pp. 499-518.
- STEWART, J., 1994a. *Issues for the management of local government*. University of Birmingham, School of Public Policy, Institute of Local Government Studies.
- STEWART, J., 1994b. *Supporting the councillor in local government: some ways forward*. Luton : Local Government Management Board..
- STEWART, J., 1994c. *Understanding The Management of the Local government*. UK: Longmans
- STEWART, John, 1995. *Local government today: an observer's view: summary*. Luton: Local Government Management Board.
- STEWART, T. A. 1996a. *Human resources bites back*. Fortune, May 13: 175.
- STEWART, T. A. 1996b. *Taking on the last bureaucracy*. Fortune, January 15: 105.

- STOREY, J and SISSON, K., 1993. *Managing Human Resources And Industrial Relations*. Buckingham: Open University Press.
- STOREY, J. (ed) 1994. *Human resource management: a critical text*. London: Thomson.
- STOREY'S, JOHN, 1992. *Developments in the management of human resources : an analytical review*. Oxford: Blackwell.
- STRAUSS, A. & CORBIN, J., 1990. *Basics of Qualitative Research: Grounded Theory Procedures and Techniques*. Newbury Park : SAGE.
- SWANSON, R.A. and HOLTON, E.F. 1999. *Results: How to Assess Performance, Learning, and Perceptions in Organizations*. Berrett: Koehler Publishers.
- TARKENTON, F. 1986. *How to motivate people : the team strategy for success*. London : Harper & Row.
- TAYLOR, F. W. 1890. *The rise of scientific management*. Madison; London : University of Wisconsin Press.
- TAYLOR, F. W., 1911. *The principles of scientific management*. London : Harper & Brothers.
- THOMPSON, A. A. and STRICKLAND, A. J. 1990. *Strategic Management: Concepts and Cases*, BPI Irwin, Homewood.
- THOMPSON, P. 1995. *Work organisations : a critical introduction*. Basingstoke : Macmillan.
- THOMSON, M. 1992 . "Pay and Performance: the Employee Experience," *IPM Report*. No. 218, Institute of Manpower Studies. Brighton.
- THOMSON, R., 1997. *Managing people*. Oxford : Butterworth-Heinemann.
- TOFT, G. 1989. "Synoptic (One Best Way) Approaches of Strategic Management." In JACK RABIN, J. et al (eds) *Handbook of Strategic Management*. New York and Basel: Marcel Dekker.
- TORRINGTON, D and HALL, L., 1995. *Personnel Management -A new approach*. Englewood Cliffs; London: Prentice Hall International Ltd.
- VENKATRAMAN, N. 1989. 'The Concept of Fit in Strategy Research: Toward Verbal and Statistical Correspondence ', *Academy of Management Review*, 14(3): 423–44.
- VERHELLEN, E. 1994. *Convention on the rights of the child : background, motivation, strategies*. Leuven : Garant.
- VERNON, R. 1984. "Linking Managers with Ministers: Dilemmas of the State-owned Enterprise", *Journal of Policy Analysis and Management*, Vol. 4.
- VROOM, V.H. 1964. *Work and Motivation*., New York, NY: John Wiley.
- WALDEGRAVE, W., 1993. *Public Service and the Future: Reforming Britain's bureaucracies*. London: Conservative Political Centre.
- WALSH, K. 1995. *Public services and market mechanisms : competition, contracting and the new public management*. Basingstoke : Macmillan.
- WALTON, R.E. (1985) 'From Control to Commitment in the Workplace', *Harvard Business Review*, 63: 77–84.
- WARD, K. 1992. *Strategic Management Accounting*. Oxford: Butterworth-Heinemann.
- WEDDERBURN, D. and CROMPTON, R. 1972. *Workers' attitudes and technology*. London : Cambridge University Press.
- WILLIAMS, A., et al., 1993. *Changing Culture - New Organisational Approaches*. London: Institute of Personnel Management.
- WILSON, P. F. & Pearson, R.D., 1995. *Performance-Based Assessments: External, Internal & Self-assessment tools for TQM*. Wilsconsin, USA: ASQC.
- WILSON, S. et al., 1994. *Local Government in The United Kingdom*. London : The Macmillan Press Ltd.
- WOOD, S. and ALBANESE, M.T. (1995) 'Can We Speak of Human Resource Management on the Shop Floor?', *Journal of Management Studies*, 3(2): 215–47.

- WORLD BANK 1996. "Findings: Africa Region," Issue Number 56, February, 1996.
- WORLD BANK 1997. "World Development Report 1997. Economic Indicators," Washington D.C.
- WORLD BANK, 1995. "Local government capacity in Colombia: beyond technical assistance," World Bank Report, Washington, D. C
- WRIGHT, P. M., & MCMAHAN, G. C. 1992. "Theoretical perspectives for strategic human resource management." *Journal of Management*, 18: 292-320.
- WRIGHT, P. M., & SHERMAN, W. S. 1999. "Failing to find fit in strategic human resource management: Theoretical and empirical problems." In P. Wright, L. Dyer, J. Boudreau & G. Milkovich (Eds.), *Research in personnel and human resources management*. Supplement 4. Strategic human resources management in the 21st century: 53-74. Greenwich, CT: JAI Press.
- WRIGHT, P.M., & SNELL, S. A. 1998. "Toward a unifying theory for exploring fit and flexibility in strategic human resource management". *Academy of Management Review*, volume 23: 756-772.
- WRIGHT, V. 1991. "Performance related pay." In Neale, F. (ed.). *The Handbook of Performance Management*. London: IPM.
- WRIGHT, V., 1994. "Reshaping the State: Implications for public administration," *Western European Politics*, Vol. 17, pp. 102-34.
- YIN, R. K. 1994. *Case study research : design and methods*. London : Sage.
- YIN, R.K. 1993. *Applications of Case Study Research*. Newbury Park : Sage.
- YONGE, O. & STEWIN, L. 1988. "Reliability and Validity: misnomers for qualitative research," *Canadian Journal of Nursing Research*. Vol. 20 No.2, pp. 61-7.
- YOUNDT, M., SNELL, S.A., DEAN, J.W. AND LEPAK, D.P. 1996. 'Human Resource Management , Manufacturing Strategy, and Firm Performance', *Academy of Management Journal*, 39(4), 836–66.
- YOUNG, G. 1996. *Globalization : theory and practice*. London : Pinter.
- YOUNG, K. & RAO, N. 1997. *Local government since 1945: Making contemporary Britain*. Oxford : Blackwell
- ZECKHAUSER, R. J. AND HORN, M. 1989. "The Control and Performance of State-Owned Enterprises," in MacAvoy, P. et al. (eds) *Privatisation and State Owned Enterprise. Lessons from the United States, Great Britain and Canada*. Boston : Kluwer.
- ZIFCAK, S. 1994. *New Managerialism: Administrative Reform in Whitehall and Canberra*. Buckingham : Open University Press.